



Home Oil Company Limited Annual Report 1976



CORPORATE PROFILE

Home Oil Company Limited, incorporated as a Dominion Company in 1929, is an independent Canadian oil and gas exploration and production company with its headquarters in Calgary, Alberta. Subsidiary offices are located in Tulsa, Oklahoma, Houston, Texas and London, England. Exploration activities are world-wide, with the heaviest concentration in Canada and the United States. The Company's major producing properties are located in Alberta. Production is also obtained from properties in British Columbia, Saskatchewan and various States within the United States. The Company operates and has ownership in two major pipeline systems and five gas processing plants, as well as ownership in 14 other gas processing plants within Alberta and British Columbia. The Company has a 50 per cent interest in

a natural gas liquids (LPG) fractionation plant and underground storage facility at Hardisty, Alberta, and owns a large underground facility for the storage of LPGs in Kansas. Home and its United States subsidiary market LPGs in both Canada and in the United States. The Company does not engage in refining or retail marketing of gasoline. Other major corporate assets of Home include a 20 per cent partnership interest in a semi-submersible drilling vessel, an investment in TransCanada PipeLines Limited, substantial undeveloped coal reserves in south-western Alberta and south-eastern British Columbia, an investment in a silver mining property in Mexico and a gold and silver mine near Reno, Nevada.

In 1976 Conduit and Saunders Graphics Ltd. was commissioned to create a new corporate symbol for your Company. This symbol, which can be seen throughout the Report, is in the new, distinctive corporate colours of deep brown and turquoise.

In mid-1977 Home Oil Company Limited will be moving its Calgary office staff to the Home Oil Tower — Oxford Square, 324 Eighth Avenue, S.W., Calgary, Alberta, T2P 2Z5.

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DIRECTORS

* **ANTHONY G. S. GRIFFIN (Toronto, Ontario)**

Chairman of the Boards of the Company, The Commercial Life Assurance Company of Canada, The Halifax Insurance Company, Scurry-Rainbow Oil Limited.

Director: Canadian Corporate Management Co. Ltd., Canadian Industries Limited, The Consumers' Gas Company, ICI Americas Inc., National Film Board, Raymond International Inc., Triarch Corporation Limited, United Dominions Corporation (Canada) Limited, Victoria & Grey Trust Company, S. G. Warburg & Co. International Holdings Limited.

GEORGE W. CARPENTER (Toronto, Ontario)

Executive Vice-President and Director of The Consumers' Gas Company.

President and Director of Tecumseh Gas Storage Limited.

* **GEORGE E. CREBER, Q.C. (Toronto, Ontario)**

President and Chief Executive Officer and Director of The Consumers' Gas Company.

Director: Canada Trustco Mortgage Company, The Canada Trust Company, Chubb Industries Limited, Cygnus Corporation Limited, Rothmans of Pall Mall Canada Limited, Scurry-Rainbow Oil Limited, Shaw & Begg, Limited.

PERCY M. FOX (Bermuda)

Chairman of the Board of the Great Lakes Paper Company, Limited.

Director: Falconbridge International Limited, St. Lawrence Corporation Limited.

Honorary Director: The Royal Trust Company.

* **J. DOUGLAS GIBSON, O.B.E. (Toronto, Ontario)**

Chairman of the Board of The Consumers' Gas Company.

Chairman of the Board and Managing Director of Cygnus Corporation Limited.

Chairman of the Boards of Canadian Reinsurance and Canadian Reassurance Companies.

Director: Bell Canada, Harding Carpets Limited, The Imperial Life Assurance Company of Canada, Moore Corporation Limited, National Trust Company Limited, North American Reinsurance and North American Reassurance Companies, Northern Telecom Limited, Scurry-Rainbow Oil Limited, Steel Company of Canada Limited.

*† **THE HON. HARRY W. HAYS, P.C. (Calgary, Alberta)**

Rancher.

Member of the Senate of Canada.

Director: Canada Permanent Companies.

WILLIAM F. JAMES, Ph. D. (Toronto, Ontario)

Chairman of the Board and President of Alminex Limited.

Director: Bayer Foreign Investments Limited, Campbell Red Lake Mines Limited, Dome Mines Limited, Falconbridge Dominicana C por A, Falconbridge Nickel Mines Limited, Giant Yellowknife Mines Limited, Grafton Group Limited, Granby Mining Corporation, Irish Base Metals Limited, Northgate Exploration Limited.

*† **HENRY E. LANGFORD, Q.C. (Toronto, Ontario)**

Corporate Director.

Director: Casualty Insurance Company, The Dominion of Canada General Insurance Company, E. L. Financial Corporation, The Empire Life Insurance Company, Geo. J. McLeod Company, Victoria & Grey Trust Company.

HENRY F. LEMIEUX (Houston, Texas)

Chairman of the Board and President and Chief Executive Officer of Raymond International Inc.

PETER L. P. MACDONNELL, Q.C. (Edmonton, Alberta)

Partner, Milner & Steer, Barristers and Solicitors.

Director: Alberta Energy Company, The Alberta Gas Ethylene Company Limited, The Alberta Gas Trunk Line Company Limited, CAE Industries Ltd., Canadian Utilities Limited, Diamond Shamrock Alberta Gas Ltd., Edmonton Broadcasting Company Limited, GWG Limited, IU International Corporation, North American Life Assurance Company, Northern Transportation Company Limited, The Royal Bank of Canada, J. Henry Schroder & Co. Limited, Western Supplies Limited.

W. DONALD C. MACKENZIE (Calgary, Alberta)

President, W. D. C. Mackenzie Consultants Ltd.

Chairman of the Boards of Easton United Securities Limited, Scott United Securities Limited.

Director: Hudson's Bay Company, Siebens Oil & Gas Ltd.

THE RT. HON. LORD McFADZEAN, K. T. (London, England)

Deputy Chairman of the Midland Bank Limited, London, England.

Deputy Chairman: The Canada Life Assurance Company of Great Britain Limited, National Nuclear Corporation Ltd.

Chairman of the Boards of Canada Life Unit Trust Managers Limited, Home Oil (U.K.) Limited, Scurry-Rainbow (U.K.) Limited, Standard Broadcasting Corporation (U.K.) Limited.

Honorary Life President: BICC Limited.

Director: The Canada Life Assurance Company, Standard Broadcasting Corporation Limited.

Director Emeritus: Canadian Imperial Bank of Commerce.

MAURICE P. PAULSON (Calgary, Alberta)

Executive Vice-President and General Manager of the Company.

Director: Scurry-Rainbow Oil Limited.

* **ROSS F. PHILLIPS, F.C.A. (Calgary, Alberta)**

President and Chief Executive Officer of the Company.

President and Director of Scurry-Rainbow Oil Limited.

Director: Calgary Power Limited, The Commercial Life Assurance Company of Canada, The Consumers' Gas Company, Crown Trust Company.

HARRY I. PRICE (Toronto, Ontario)

Chairman of the Executive Committee and Director of Burns Foods Limited.

† **ARTHUR M. SHOULTS (Vancouver, British Columbia)**

President and Chief Executive Officer of B. R. E. Electric Ltd.

Chairman of the Boards of Comcore Communications Limited, CHQT Broadcasting Ltd.

Director: Banister Continental Ltd., Chester Industrial Tool Supply Ltd.

RENAULT ST-LAURENT, Q.C., LL.D. (Quebec City, Quebec)

Partner, St-Laurent, Monast, Walters & Vallières, Barristers and Solicitors.

Director: Banque Canadienne Nationale, Canabec Investments Ltd., Charlton Transport Quebec Limited, Gaz du Quebec Inc., The Imperial Life Assurance Company of Canada, Montreal Advisory Board of National Trust Company Limited, Paccar of Canada Ltd., Reed Ltd., Reed Paper Ltd., Rothmans of Pall Mall Canada Limited, La Compagnie de Tabac Rock City Limitée, Scott Paper Limited, Sovereign General Insurance Company, Villa Medica Inc.

† **WILLIAM H. ZIMMERMAN, Q.C. (Toronto, Ontario)**

Counsel, Aird, Zimmerman & Berlis, Barristers and Solicitors.

Vice-Chairman of the Board of Eaton Group of Mutual Funds.

Director: The Becker Milk Company Limited, The Consumers' Gas Company, Inter-Provincial Diversified Holdings Ltd.

* Member Executive Committee

† Member Audit Committee

HIGHLIGHTS

FINANCIAL

	1976	1975
Gross Operating Revenue	\$121,393,000	\$109,579,000
Net Earnings Before Extraordinary Items	\$ 30,436,000	\$ 26,545,000
Per Share	\$ 3.73	\$ 3.26
Net Earnings After Extraordinary Items	\$ 30,436,000	\$ 25,582,000
Per Share	\$ 3.73	\$ 3.14
Dividends Declared	\$ 5,104,000	\$ 4,078,000
Per Class A Share	\$ 0.62½	\$ 0.50
Per Class B Share	\$ 0.62½	\$ 0.50
Working Capital at December 31	\$ 53,470,000	\$ 33,721,000
Exploration Expenditures	\$ 36,486,000	\$ 20,199,000
Development Expenditures	\$ 17,319,000	\$ 9,885,000

OPERATING*

Crude Oil Production — Barrels Per Day	30,941	35,564
Natural Gas Liquids Production — Barrels Per Day	4,018	4,092
Natural Gas Sales — Million Cubic Feet Per Day	119.2	125.2
Sulphur Sales — Long Tons	47,211	35,801
Pipeline Gatherings		
Federated Pipe Lines Ltd. — Barrels Per Day	262,559	294,738
Cremona Pipeline Division — Barrels Per Day	40,978	43,759
Proven Developed Reserves at December 31		
Crude Oil and Natural Gas Liquids — Barrels	140,816,000	152,725,000
Natural Gas — Thousand Cubic Feet	758,578,000	782,570,000
Sulphur — Long Tons	1,302,700	1,786,400
Exploration Acreage at December 31		
Gross Acres	36,264,000	33,850,000
Net Acres	7,451,000	7,976,000

* Daily Production and Proven Reserves shown as Company's share before deduction of royalties and minority interests in subsidiary companies.

AR14



INTERIM REPORT
TO SHAREHOLDERS

FOR THE TWELVE MONTHS ENDED
DECEMBER 31, 1976

304 - SIXTH AVENUE S.W.,
CALGARY, ALBERTA
T2P 0R4

FEBRUARY 28, 1977

HOME OIL COMPANY LIMITED

The audited Consolidated Statement of Earnings for the years ended December 31, 1976 and 1975, which will appear in the Company's annual report is as follows:

	1976	1975
REVENUE		
Operating revenue	\$113,045,000	\$103,649,000
Investment income	8,348,000	5,930,000
	<u>121,393,000</u>	<u>109,579,000</u>
EXPENSE		
Operating	16,721,000	13,401,000
General and administrative	8,878,000	8,017,000
Depletion	21,011,000	20,937,000
Depreciation	3,393,000	3,405,000
Interest and expense on long term debt	7,413,000	6,679,000
Other interest	46,000	596,000
Minority interest	617,000	401,000
	<u>58,079,000</u>	<u>53,436,000</u>
Net earnings before provision for income taxes	<u>63,314,000</u>	<u>56,143,000</u>
PROVISION FOR INCOME TAXES		
Current	26,014,000	27,447,000
Deferred	6,864,000	2,151,000
	<u>32,878,000</u>	<u>29,598,000</u>
NET EARNINGS before extraordinary items	<u>30,436,000</u>	<u>26,545,000</u>
EXTRAORDINARY ITEMS		
Loss on investment transactions — net	—	(3,287,000)
Gain on sale of assets — net	—	2,324,000
	<u>—</u>	<u>(963,000)</u>
NET EARNINGS	<u>\$ 30,436,000</u>	<u>\$ 25,582,000</u>
EARNINGS PER SHARE		
Before extraordinary items	\$ 3.73	\$ 3.26
After extraordinary items	\$ 3.73	\$ 3.14

The annual report, which will be mailed in early April, will contain audited financial statements together with details of the results of the operations of Home Oil Company Limited for the year 1976.



R. F. Phillips
President and
Chief Executive Officer

Calgary, Alberta
February 28, 1977

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Home Oil Company Limited

sell

INTERIM REPORT
TO SHAREHOLDERS

FOR THE THREE MONTHS ENDED
MARCH 31, 1976

304 - SIXTH AVENUE S.W.,
CALGARY, ALBERTA
T2P 0R4

MAY 17, 1976

TO THE SHAREHOLDERS:

Net earnings for the first quarter of 1976 amounted to \$8,145,000 (\$1.00 per share) compared with \$7,362,000 (\$0.90 per share) for the comparable period in 1975. The 1975 amount includes extraordinary gains of \$626,000 (\$0.07 per share) from the sale of investments and land.

Gross revenue increased 21% to \$31,671,000 during the first three months of 1976. The increase is primarily a result of crude oil and natural gas price increases occurring in the second half of 1975.

Crude oil and natural gas liquids production decreased to 36,800 barrels per day from the 40,500 barrels per day produced in 1975. Natural gas sales amounted to 140,900 Mcf per day during the first quarter of 1976, relatively unchanged from last year's first quarter.

During the first quarter of 1976 the Company participated in the drilling of 45 exploratory wells and 25 development wells. Exploratory drilling resulted in two oil wells, 11 gas wells, 21 dry holes with 11 still drilling. Development drilling resulted in one oil well, nine gas wells, 10 dry holes with five wells still drilling at the end of the quarter.

The Company has expanded its exploration program for 1976 with planned expenditures of \$33,000,000. In 1975 the Company participated in a significant natural gas discovery at Findley, Alberta. This discovery was one of the important Canadian successes during the year and five zones have been production tested. A second well is now drilling to delineate this discovery. The Willson Creek-Limestone Mountain Area, near Calgary, is another area of the foothills that is gaining increasing importance. Another Company recently announced three discoveries in this area. Home has a small but significant holding in this area and is actively negotiating deals which should result in further drilling later this year. The Company intends to increase its exploration involvement in the N.E. sector of B.C. mainly as a result of higher natural gas prices for producers.

In April, 1976, the Delta 5 group spudded its third Mackenzie Delta well — Wagnark C-23. Although the first two wells in the Delta were dry, the Company is nevertheless optimistic about the long term possibilities of the area.

The Company is continuing its active exploration effort in the United States with a program of some 40 exploratory wells planned. Three to four wells will be drilled on Block 560 and 561 offshore Texas later this year. In the Williston Basin where the Company holds an interest in excess of one million acres, it is anticipated that other companies will drill in excess of 25 wells through farmout agreements.

Canopy

CONSOLIDATED STATEMENT OF EARNINGS

For the Three Months ended March 31, 1976
(\$000's omitted)

	1976	1975
REVENUE		
Operating revenue	\$29,652	\$24,943
Investment income	2,019	1,293
	<u>31,671</u>	<u>26,236</u>
EXPENSE		
Operating	3,772	2,779
General and administrative	2,503	1,724
Depletion	5,943	5,296
Depreciation	967	844
Interest and expense on long-term debt	1,512	1,395
Other interest	—	496
Minority interest	151	4
	<u>14,848</u>	<u>12,538</u>
Net earnings before income taxes	<u>16,823</u>	<u>13,698</u>
PROVISION FOR INCOME TAXES		
Current	7,073	6,660
Deferred	1,605	302
	<u>8,678</u>	<u>6,962</u>
NET EARNINGS before extraordinary items	<u>8,145</u>	<u>6,736</u>
EXTRAORDINARY ITEMS		
Gain on sale of Investments	—	507
Assets	—	119
	<u>—</u>	<u>626</u>
NET EARNINGS	<u>\$ 8,145</u>	<u>\$ 7,362</u>
BASIC EARNINGS PER SHARE		
Before extraordinary items	\$ 1.00	\$.83
After extraordinary items	\$ 1.00	\$.90
FULLY DILUTED EARNINGS PER SHARE		
Before extraordinary items	\$.98	\$.81
After extraordinary items	\$.98	\$.88
CASH FLOW		
Per Share	\$ 1.98	\$ 1.58

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Three Months ended March 31, 1976
(\$000's omitted)

	1976	1975
FUNDS WERE OBTAINED		
FROM		
Net earnings before non-cash items	\$ 16,187	\$ 12,868
Issuance of capital stock	64	—
Sale of investments and land ..	581	3,279
	<u>\$ 16,832</u>	<u>\$ 16,147</u>

FUNDS WERE USED FOR		
Property, plant and equipment.	\$ 8,893	\$ 5,990
Repayment of long-term debt .	3,475	4,116
Net increase in other non-current assets	2,694	2,524
	<u>15,062</u>	<u>12,630</u>
Increase in working capital....	1,770	3,517
	<u>\$ 16,832</u>	<u>\$ 16,147</u>

MAJOR BALANCE SHEET	1976	1975
ITEMS (\$000's omitted)		
Working Capital (deficiency)...	\$ 35,491	\$ (13,367)
Investments	29,360	55,577
Property, plant and equipment - net	290,800	284,308
Long-term debt (less current maturities)	69,125	64,002
Minority interest	12,751	12,884
Accumulated tax reduction applicable to future years ...	51,523	48,161
Capital and surplus	227,221	204,845

PRODUCTION AND SALES	1976	1975
Crude oil and natural gas liquids (barrels/day)		
Gross	36,800	40,500
Natural gas (Mcf/day)		
Gross	140,900	140,000
Sulphur (long tons)		
Gross	16,800	11,300

Home Oil Company Limited

INTERIM REPORT TO SHAREHOLDERS

FOR THE FIRST HALF OF 1976

304 - SIXTH AVENUE S.W.,
CALGARY, ALBERTA
T2P 0R4

AUGUST 13, 1976

TO THE SHAREHOLDERS:

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The Company is continuing its active exploration effort in the United States with a program of some 40 exploratory wells planned. Three to four wells will be drilled on Block 560 and 561 offshore Texas later this year. In the Williston Basin where the Company holds an interest in excess of one million acres, it is anticipated that other companies will drill in excess of 25 wells through farmout agreements.

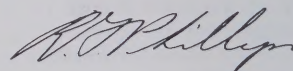
Home participated in the drilling of a well on Block 21/7 in the U.K. sector of the North Sea. Although the well was dry and abandoned the Company earned a 21-¼% interest through its participation. In addition, Scurry-Rainbow is participating in the drilling of a well on Block 3/7 adjacent to the Ninian field. It is anticipated that an additional well will be drilled on this block this year in order to test the West Ninian Fault Structure.

An offshore well was spudded in the Gulf of Thailand in March. The Company is paying 10% of the cost of the well in order to earn a 2-½% interest in the well. An additional 2-½% will be earned through the drilling of a second well. It is anticipated additional wells will be drilled in this area in mid-1976.

The Company's coal properties in British Columbia and Alberta, through its 86% ownership in Scurry-Rainbow Oil Limited, are reaching an advanced stage of exploration and evaluation.

At the Annual General Meeting of the Shareholders on April 27, 1976, seventeen of the Directors whose terms of office had expired were re-elected. In addition, Mr. W. Donald C. Mackenzie of Calgary was elected replacing Col. James Innes of London, England, who retired.

Mr. J. H. Geddes, Vice-President, was assigned responsibility for Planning and Special Projects, and Mr. C. B. Clark was appointed Corporate Secretary of the Company.



May 17, 1976
Calgary, Alberta

R. F. Phillips
President and
Chief Executive Officer

Home Oil Company Limited

INTERIM REPORT
TO SHAREHOLDERS

FOR THE FIRST HALF OF 1976

304 - SIXTH AVENUE S.W.,
CALGARY, ALBERTA
T2P 0R4

AUGUST 13, 1976

TO THE SHAREHOLDERS:

Net earnings for the first half of 1976 amounted to \$13,716,000 (\$1.68 per share) as compared to \$8,358,000 (\$1.02 per share) for the first six months of 1975. Extraordinary items totalled \$408,000 representing a gain on the sale of investments in 1976 as opposed to a net loss of \$4,018,000 in 1975.

Gross revenue increased 15% to \$58,598,000 during the six month period under review. The increase is due to crude oil and natural gas price increases occurring in the second half of 1975. On July 1st, 1976 the crude oil price increased by \$1.05 per barrel and the Toronto Gate Price for natural gas increased \$0.155 cents per mcf. A further increase of \$0.20 per mcf. on natural gas will become effective September 10th, 1976 on gas exported to the United States. A portion of these price increases will be returned to the producers.

Included in net earnings for 1976 is a non-recurring loss of approximately \$1,050,000 associated with a contract for the use of the semi-submersible Odin Drill. This two year contract terminated on June 23, 1976. The Company retains a 20% interest in this vessel which is currently drilling in the North Sea.

Crude oil and natural gas liquids production for the first half of 1976 decreased to 35,400 barrels per day compared to 39,200 barrels per day in 1975. The decrease is largely due to the drop in production allowables set by regulatory authorities affecting Home's major producing fields. Natural gas sales amounted to 129 mmcf per day compared to 136 mmcf in 1975. The decline is due in part to a cyclical pattern of gas sales from the Harmattan Elkton field which should increase in the second half of the year.

The Company during the first six months of 1976 participated in the drilling of 61 exploratory wells. The program resulted in 4 oil discoveries and 15 gas discoveries with 9 wells still drilling at June 30, 1976. Home's development drilling program resulted in the drilling of 39 wells resulting in 3 oil wells, 17 gas wells with 6 wells still drilling.

During the second quarter the Company increased its land holdings in two potentially significant areas of Alberta. In the Brown Creek area in west central Alberta a further 23,000 gross acres were acquired on a Devonian Reef play. In the Akuiinu area of central Alberta where the Company has drilled two successful gas wells, a 21,000 gross acre gas license has been acquired. A Foothills exploration group has been formed and an aggressive seismic acquisition program for 1976 initiated. The Company has a 10% interest in the Findley gas discovery drilled in 1975 and completed in the first half of 1976 with 5 producing zones. A follow-up well was drilled on the structure during the first half of 1976. In addition to the formations proven to be gas bearing in the discovery well, drillstem tests of a number of other formations in the second well have also produced gas. Production casing has been set and completion of the well is to commence immediately. Further drilling will be undertaken on this structure in the second half of 1976.

CONSOLIDATED STATEMENT
OF EARNINGS

For the Six Months ended June 30, 1976
(\$000's omitted)

	1976	1975
REVENUE		
Operating revenue	\$55,753	\$48,106
Investment income	2,845	2,943
	<u>58,598</u>	<u>51,049</u>
EXPENSE		
Operating	8,102	5,871
General and administrative	4,846	3,921
Depletion	11,449	10,608
Depreciation	1,948	1,677
Interest and expense on long-term debt	3,024	3,194
Other interest	—	591
Minority interest	295	198
	<u>29,664</u>	<u>26,060</u>
Net earnings before income taxes	<u>28,934</u>	<u>24,989</u>
PROVISION FOR INCOME TAXES		
Current	12,705	12,154
Deferred	2,921	459
	<u>15,626</u>	<u>12,613</u>
NET EARNINGS before extraordinary items	<u>13,308</u>	<u>12,376</u>
EXTRAORDINARY ITEMS		
Gain (Loss) on Sale of Investments	408	(4,237)
Assets	—	219
	<u>408</u>	<u>(4,018)</u>
NET EARNINGS	<u>\$13,716</u>	<u>\$ 8,358</u>
BASIC EARNINGS PER SHARE		
Before extraordinary items	\$ 1.63	\$ 1.52
After extraordinary items	\$ 1.68	\$ 1.02
FULLY DILUTED EARNINGS PER SHARE		
Before extraordinary items	\$ 1.60	\$ 1.50
After extraordinary items	\$ 1.65	\$ 1.00
CASH FLOW		
Per Share	\$ 29,675 \$ 3.64	\$24,958 \$ 3.06

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Six Months ended June 30, 1976
(\$000's omitted)

	<u>1976</u>	<u>1975</u>
FUNDS WERE OBTAINED FROM		
Net earnings before non-cash items	\$ 29,675	\$ 24,958
Long-term borrowings - net	1,536	15,000
Issuance of capital stock	115	—
Sale of investments and assets	2,167	28,795
	<u>\$ 33,493</u>	<u>\$ 68,753</u>
FUNDS WERE USED FOR		
Property, plant and equipment	\$ 23,148	\$ 11,939
Repayment of long-term debt	6,253	7,675
Net increase in other non-current assets	3,152	3,515
Dividends	2,041	3,059
	<u>34,594</u>	<u>26,188</u>
Increase (Decrease) in working capital	<u>(1,101)</u>	<u>42,565</u>
	<u>\$ 33,493</u>	<u>\$ 68,753</u>

	JUNE 30	
	<u>1976</u>	<u>1975</u>
MAJOR BALANCE SHEET ITEMS (\$000's omitted)		
Working capital	\$ 32,620	\$ 25,681
Investments	30,398	26,899
Property, plant and equipment - net	298,549	283,149
Long-term debt (less current maturities)	67,784	75,443
Minority interest	12,893	13,034
Accumulated tax reduction applicable to future years	52,839	48,254
Capital and surplus	230,842	202,782

	SIX MONTHS	
	<u>1976</u>	<u>1975</u>
PRODUCTION AND SALES		
Crude oil and natural gas liquids (barrels/day)		
Gross	35,400	39,200
Natural gas (Mcf/day)		
Gross	129,200	136,000
Sulphur (long tons)		
Gross	31,500	19,100

TO THE SHAREHOLDERS:

Net earnings for the first half of 1976 amounted to \$13,716,000 (\$1.68 per share) as compared to \$8,358,000 (\$1.02 per share) for the first six months of 1975. Extraordinary items totalled \$408,000 representing a gain on the sale of investments in 1976 as opposed to a net loss of \$4,018,000 in 1975.

Gross revenue increased 15% to \$58,598,000 during the six month period under review. The increase is due to crude oil and natural gas price increases occurring in the second half of 1975. On July 1st, 1976 the crude oil price increased by \$1.05 per barrel and the Toronto Gate Price for natural gas increased \$0.155 cents per mcf. A further increase of \$0.20 per mcf. on natural gas will become effective September 10th, 1976 on gas exported to the United States. A portion of these price increases will be returned to the producers.

Included in net earnings for 1976 is a non-recurring loss of approximately \$1,050,000 associated with a contract for the use of the semi-submersible Odin Drill. This two year contract terminated on June 23, 1976. The Company retains a 20% interest in this vessel which is currently drilling in the North Sea.

Crude oil and natural gas liquids production for the first half of 1976 decreased to 35,400 barrels per day compared to 39,200 barrels per day in 1975. The decrease is largely due to the drop in production allowables set by regulatory authorities affecting Home's major producing fields. Natural gas sales amounted to 129 mmcf per day compared to 136 mmcf in 1975. The decline is due in part to a cyclical pattern of gas sales from the Harmattan Elkton field which should increase in the second half of the year.

The Company during the first six months of 1976 participated in the drilling of 61 exploratory wells. The program resulted in 4 oil discoveries and 15 gas discoveries with 9 wells still drilling at June 30, 1976. Home's development drilling program resulted in the drilling of 39 wells resulting in 3 oil wells, 17 gas wells with 6 wells still drilling.

During the second quarter the Company increased its land holdings in two potentially significant areas of Alberta. In the Brown Creek area in west central Alberta a further 23,000 gross acres were acquired on a Devonian Reef play. In the Akuinu area of central Alberta where the Company has drilled two successful gas wells, a 21,000 gross acre gas license has been acquired. A Foothills exploration group has been formed and an aggressive seismic acquisition program for 1976 initiated. The Company has a 10% interest in the Findley gas discovery drilled in 1975 and completed in the first half of 1976 with 5 producing zones. A follow-up well was drilled on the structure during the first half of 1976. In addition to the formations proven to be gas bearing in the discovery well, drillstem tests of a number of other formations in the second well have also produced gas. Production casing has been set and completion of the well is to commence immediately. Further drilling will be undertaken on this structure in the second half of 1976.

In the Mackenzie River Delta the Delta 5 Group is drilling its third well, Wagnark C-23. At the time of this report drilling was continuing below 12,500 feet. Final total depth is expected to be approximately 14,500 feet.

Home has entered into an agreement to participate in a farmout of an acreage block offshore Gander in Eastern Canada. An extensive seismic program is planned for the summer of 1976 to examine several large deep water structures. A well is planned in the fall of 1978.

In the Gulf of Thailand, Home has committed to join in two separate farmouts. Home is responsible for 10% of the well costs to earn a net 2.5% interest in the first concession comprising approximately 5.5 million gross acres and has an option to earn an additional 2.5% interest. Drilling of the first well has been completed and production testing is being carried out. Under the second farmout Home is responsible for 10% of the well costs to earn a net 7.5% interest in approximately 2 million gross acres.

In the UK sector of the North Sea, Scurry-Rainbow has a 20% working interest in Block 3/7 adjoining the Ninian field. The operator of this block announced the first well encountered petroleum in the middle Jurassic reservoir which tested at a maximum flow rate of 3,100 barrels per day. A second well recently commenced drilling on the northern end of Block 3/7 with costs being shared equally by the participants in Block 3/7 and 3/2.

Home, through Scurry-Rainbow has continued an active mining exploration and development program. In the United States, Scurry recently purchased a gold and silver mining property near Reno, Nevada. A full mining development program including construction of mining facilities is now underway.

A final feasibility study of coal reserves in the Elk River area of British Columbia is expected to commence this fall and will be completed in mid 1978. Coal properties in Alberta continue to be evaluated and, in light of the new Alberta Government Coal Policy, new studies and further exploration will be necessary particularly in the Crowsnest area.

It is anticipated the Santa Rita mine in Mexico will be in full production this fall.

In July 1976 Home completed its European issue of 25 million dollars (U.S.) unsecured debentures bearing a coupon rate of 9½%. Funds from this transaction will be used for general corporate purposes.

A number of senior appointments have recently been made in the Company. Mr. W. H. Waddell has been appointed Vice-President Exploration and Mr. B. F. MacNeill has been appointed Vice-President Finance.



August 13, 1976
Calgary, Alberta

R. F. Phillips
President and
Chief Executive Officer

Farther east, within the deep basin area, a competitor has drilled a successful D3 gas strike at Pinto, and paid \$2,200 per lease acre for 3 sections offsetting its well. Home (20%) and its Deep Basin partners have considerable land holdings in the immediate area. Additional seismic is planned to evaluate these lands.

Mackenzie Delta

The third well drilled by the Delta 5 Group has been abandoned after drilling to a final total depth of 13,949 feet. An extensive testing program failed to find hydrocarbons in commercial volumes. A fourth well is tentatively programmed to be spudded in the fourth quarter. This will complete the Delta 5 Group's obligations in this area.

U.K. North Sea

In the U.K. sector of the North Sea, Scurry-Rainbow has a 10% interest in a line well with costs being shared equally by the participants in Blocks 3/7 and 3/2. This well, located to evaluate the West Ninian Fault block, flowed oil at rates up to 3,300 barrels per day from the Middle Jurassic reservoir.

Thailand

In the Gulf of Thailand, Home has contributed 10% of the cost of one well to earn a 7½% interest in 2 million gross acres of permit lands. The well, Texas Pacific Thailand 15 B-4X, has been classed as a gas discovery, having tested gas and condensate from 12 different zones. The economics of this discovery are being evaluated.

NEW DEVELOPMENTS

Bashaw Gas Plant

In keeping with our efforts to place on production natural gas shut-in reserves which have now become economically justifiable, a 12.0 MMcf per day operated plant in the Bashaw area of Central Alberta was placed on production on October 1. Home's share of production will average 2.5 MMcf per day.

Coal

Scurry-Rainbow has assigned 40% out of its previous 50% interest in its metallurgical coal properties in southeastern British Columbia to The Steel Company of Canada and Home Oil for cash consideration plus a royalty on coal produced. Following these assignments, interests in the Elk River project will be: Scurry-Rainbow — 10%; Home Oil — 15%; Stelco — 25%; and Elco Mining — 50%.

The next phase of this project will be preparation of a detailed feasibility study. This will involve an expenditure of approximately \$11 million and provide the basis for a decision in early 1978 for proceeding, subject to obtaining necessary approvals, with a commercial project of about 4 million short tons annual capacity and involving an investment of approximately \$300 million. If construction proceeds as tentatively scheduled, production could begin in 1982.

Arctic Islands

In early October Home agreed to invest \$30.5 million in the form of work obligations to be performed during the three year period between 1977 and 1979 in Panarctic Oils Ltd. This will give the Company an approximate 5.5% stake in Panarctic.

Tender Offer

On November 12, the Company made a tender offer for the purchase of common shares of Canadian Export Gas & Oil Ltd. for cash at \$5.80 (Canadian) net per share. The offer is subject to 4,217,000 shares (approximately 51%) being tendered on or before December 6, 1976.

On November 15 another company reported that it plans to make an offer to purchase the outstanding shares of Canadian Export at \$6.15 (Canadian) per share. At the date hereof Home Oil has not made any decision with respect to amending its offer.



R. F. Phillips
President and
Chief Executive Officer

November 16, 1976
Calgary, Alberta

FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 1976



INTERIM REPORT TO SHAREHOLDERS

HOME OIL COMPANY LIMITED

AND SUBSIDIARY COMPANIES

TO THE SHAREHOLDERS:

FINANCIAL

Net earnings, before extraordinary items, for the first nine months of 1976, amounted to \$20,902,000 (\$2.56 per share) as compared to \$18,512,000 (\$2.27 per share) for the first nine months of 1975. Not included are extraordinary gains totalling \$408,000 (\$0.05 per share) from the sale of investments in 1976, as opposed to an extraordinary net loss of \$2,518,000 (\$0.31 per share) in 1975. Net earnings for the first nine months of 1976 after extraordinary items, amounted to \$21,310,000 (\$2.61 per share) as compared to \$15,994,000 (\$1.96 per share) for the same period last year.

Gross revenue increased 13% to \$88,934,000 during the nine month period. This increase is primarily due to higher crude oil and natural gas price increases occurring during the third quarter of 1976.

PRODUCTION

Crude oil and natural gas liquids production for the first nine months of 1976 decreased to 34,600 barrels per day compared to 39,200 barrels per day in 1975. The decrease is largely due to the drop in production allowables set by regulatory authorities affecting Home's major producing fields. Natural gas sales amounted to 119 MMcf per day compared to 126 MMcf per day in 1975.

DRILLING

During the period, the Company participated in 95 exploratory wells. This program resulted in 5 oil wells, 24 potential gas wells, 54 abandonments, and 12 were still drilling at September 30.

Home's development program resulted in the drilling of 64 wells, of which 4 were completed as oil wells, 35 as potential gas wells, 20 were abandoned, and 5 were still drilling.

EXPLORATION

Alberta

During the third quarter the Foothills Exploration Group, in which Home has a 33½% interest, completed arrangements for a seismic program in the Foothills. Two wells of importance to Home are currently being drilled in this area. Home Getty et Ram River 10-1-36-14 W5 (Home 50%), which spudded on July 2, was drilling at 7,870 feet on September 30. Estimated total depth is 10,500 feet, and the well will give Home a 25% interest in 16 sections.

A Mississippian test well, HB Home et al Blackstone 14-33-42-17 W5, which Home pays 50%, was spudded on July 9 and was at a depth of 5,094 feet on September 30 with total depth estimated at 13,500 feet. Home will earn a minimum 25% interest in 18 sections of pooled lands, plus a minimum 30% interest in an additional 26 sections of Natural Gas Licenses.

In the Findley area of the deep basin, two additional wildcard wells are planned for the 1976-77 winter season. Testing of the second well, (Home 10%) already drilled on this structure, began in late September.

CONSOLIDATED STATEMENT OF EARNINGS

For the Nine Months ended September 30, 1976
(\$000's omitted)

	1976	1975
REVENUE		
Operating revenue	\$82,515	\$74,539
Investment income	6,419	4,213
	<u>88,934</u>	<u>78,752</u>
EXPENSE		
Operating	12,144	9,258
General and administrative	7,064	5,937
Depletion	16,848	16,185
Depreciation	2,628	2,516
Interest and expense on long-term debt	5,156	4,983
Other interest	—	591
Minority interest	471	239
	<u>44,311</u>	<u>39,709</u>
Net earnings before income taxes	44,623	39,043
PROVISION FOR INCOME TAXES		
Current	19,170	19,449
Deferred	4,551	1,082
	<u>23,721</u>	<u>20,531</u>
NET EARNINGS before extraordinary items	<u>20,902</u>	<u>18,512</u>
EXTRAORDINARY ITEMS		
Gain (Loss) on Sale of Investments	408	(3,247)
Assets	—	729
	<u>408</u>	<u>(2,518)</u>
NET EARNINGS	<u>\$21,310</u>	<u>\$15,994</u>
BASIC EARNINGS PER SHARE		
Before extraordinary items	\$ 2.56	\$ 2.27
After extraordinary items	\$ 2.61	\$ 1.96
FULLY DILUTED EARNINGS PER SHARE		
Before extraordinary items	\$ 2.51	\$ 2.23
After extraordinary items	\$ 2.56	\$ 1.93
CASH FLOW		
Per Share	\$44,099	\$38,173
	\$ 5.40	\$ 4.68

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Nine Months ended September 30, 1976
(\$000's omitted)

	1976	1975
FUNDS WERE OBTAINED FROM		
Net earnings before non-cash items	\$ 44,099	\$ 38,173
Long-term borrowings	25,772	16,758
Issuance of capital stock	138	—
Sale of investments and assets - net	2,608	32,261
	<u>\$ 72,617</u>	<u>\$ 87,192</u>
FUNDS WERE USED FOR		
Property, plant and equipment	\$ 38,383	\$ 22,292
Repayment of long-term debt	10,225	11,331
Net increase (decrease) in other non-current assets	(1,526)	4,010
Dividends	2,041	3,059
	<u>49,123</u>	<u>40,692</u>
Increase in working capital	23,494	46,500
	<u>\$ 72,617</u>	<u>\$ 87,192</u>
MAJOR BALANCE SHEET ITEMS (\$000's omitted)	SEPTEMBER 30	
	1976	1975
Working Capital	\$ 57,215	\$ 29,616
Investments	25,363	26,894
Property, plant and equipment - net	307,652	285,593
Long-term debt (less current maturities)	87,879	73,546
Minority interest	12,913	12,466
Accumulated tax reduction applicable to future years	54,469	48,878
Capital and surplus	238,459	210,418
PRODUCTION AND SALES	NINE MONTHS	
	1976	1975
Crude oil and natural gas liquids (Barrels/day)	34,600	39,200
Gross		
Natural gas (Mcft/day)	118,800	126,200
Gross		
Sulphur (long tons)	31,100	27,200
Gross		

REPORT TO THE SHAREHOLDERS

Home Oil Company Limited established new records for both gross revenue and earnings in 1976. In addition, the Company expanded its activities in a number of areas.

The economic climate for our industry has improved significantly, and because of this we made a number of investments with a view to the future. Our energy diversification policy is now under way and present and future exploration prospects are promising.

Elsewhere in the Annual Report the levels of revenue, net earnings and cash flow from operations in 1976 are discussed. For 1977 the budget calls for the capital spending of approximately \$80 million, an increase of \$23 million over last year. Of this amount, it is estimated that \$60 million will be spent in Canada.

Oil and natural gas exploration will account for \$54 million and includes direct participation in the drilling of an estimated 85 exploratory wells. A total of \$34 million will be earmarked for exploration in Canada where the principal emphasis will be in the Deep Basin/Foothills belt of Alberta and British Columbia. Outside Canada \$10 million has been allocated to exploration in the United States and \$10 million to other foreign areas. The United States program is funded from revenues received from our United States LPG marketing, storage and oil and gas operations.

Home Oil's 1977 development expenditures will amount to approximately \$16 million, with the largest amount being concentrated in Alberta.

Your Company will also spend \$6 million on mineral exploration and development as it continues to expand and diversify its revenue base. The remaining \$4 million will be spent on new plant facilities.

The rate of crude oil production from existing fields will decline with time. It is, therefore, important that improved recovery techniques be implemented to maintain producing rates and increase the recovery of the oil in place. Home Oil is having discussions with partners and will seek Government approval to implement a pilot tertiary recovery project in Swan

Hills Unit No. 1, our largest producing oil field and one of the largest producing fields in Canada. We believe that there is considerable potential to increase crude oil reserves in Alberta by the implementation of enhanced recovery projects.

Your Company believes that good opportunities exist to increase its natural gas production through the development of recent gas discoveries that are not now on production and through new gas exploration projects. The present surplus of natural gas "deliverability" in western Canada is expected to be short-lived and therefore should not inhibit Home Oil's exploratory efforts to find new natural gas reserves to ensure continuity of supply over the long term.

We have contracts for certain gas reserves that are not now on production. We also have reserves that are not under contract. The development of these reserves will, to a large extent, depend on the anticipated sales date. We believe that the industry, with Governments' cooperation, could, through exchange agreements and in other ways, solve the surplus gas situation that now exists.

Fortunately, the nature of Home Oil's present contracts on connected natural gas is such that our net income from this source should not be significantly affected by the surplus situation.

Home Oil's philosophy is to offset the financial impact of the continued decline in its crude oil production and to achieve growth in earnings through a balanced investment program in resource exploration and development and resource processing, storage and transportation. Expansion of the Company's present activities will continue to be stressed, with expenditure levels set to preserve financial flexibility. Continued emphasis will be placed on oil and natural gas exploration programs, both in North America and overseas, which promise major reserve potential, near to mid-term marketability, favourable risk/return conditions and efficient employment of present assets. Opportunities involving exploration and development of other primary resources, particularly coal and uranium, will also be actively pursued. The purchase of reserves (either by direct purchase or through corporate acquisitions) will be considered as an additional means of growth.

As discussed in the financial review section of this report, Home Oil has substantially improved its financial position. Our expanded exploration program, together with recent purchases of proven natural gas reserves in north-eastern British Columbia and Alberta through Scurry-Rainbow, the investment in Panarctic, the recently acquired interest in the Strait of Canso storage project and the tender offer for Canadian Export Gas & Oil Ltd. though unsuccessful, are evidence of the Company's current aggressive investment strategy. In addition, the Company's mining activities in coal and metallics will be of growing significance.

Home's gross revenue for 1977 is estimated at approximately \$144 million — over three and one half times that of 1972. Oil and natural gas will contribute about 86 per cent of these revenues. Of importance is the fact that Home Oil has the added capability to finance future capital projects after providing for its increased exploration and development expenditures.

During the year Home agreed to invest \$30.5 million in shares of Panarctic Oils Ltd. in the form of work obligations to be performed during the three year period 1977 to 1979. This will give the Company an approximate 5.5 per cent stake in Panarctic and its reserves found to date.

Home Oil recognizes and is concerned about the distorting effect of inflation upon the reported earnings of our industry. We are today producing reserves which were found in the 1950's and 1960's at substantially lower finding costs than those of today. Home Oil is now studying the effects that inflation has had upon its financial operations and hopes to comment more fully on this next year.

On January 1, 1977, Home Oil increased its semi-annual dividend from 25 cents per share to 37½ cents per share. This increase was in keeping with the limitations imposed by the Federal Government's Anti-Inflation Board. We are aware that many investors desire to receive increased cash dividends and we will, therefore, continue to review our dividend policy from time to time with this in mind.

Personnel changes at a senior level and a complete restructuring of the Exploration Department organization were effected during the year.

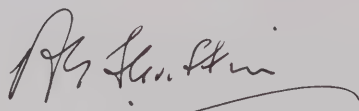
Exploration expenditures, particularly in Canada, will be significantly increased in 1977 and future years. The resultant increase in the Company's exploration program necessitated the reorganization of the Exploration Department to allow a greater degree of assimilation of the various technical disciplines. The Department is also being strengthened at the professional level. These fundamental changes will provide a stronger base from which the Company's exploration program can more effectively operate.

During 1976 Mr. Marsh A. Cooper of Toronto resigned from the Board of Directors and was replaced by Mr. Henry F. LeMieux of Houston. Directors not standing for re-election to the Board at the Annual Meeting are Mr. Percy M. Fox of Bermuda, Dr. William F. James of Toronto, Mr. Henry E. Langford, Q.C., of Toronto, The Right Honourable Lord McFadzean, K. T., of London, England, and Mr. Harry I. Price of Toronto. These gentlemen are retiring pursuant to the Company's retirement policy for Directors. They gave freely of their time to your Company's affairs and we are grateful for their wise counsel. Mr. A. Ross Poyntz of Toronto and Mr. Brian A. Carlisle of London, England, have agreed to let their names stand for nomination to the Board. At the Annual Meeting the shareholders will be asked to approve a reduction in the size of the Board from 18 to 15.

A number of senior executive appointments were made during the year. Mr. W. H. Waddell was appointed Vice-President, Exploration, Mr. B. F. MacNeill, Vice-President, Finance, Mr. B. J. Todesco, Vice-President, Law, Mr. C. B. Clark, Secretary, and Mr. E. Jorgensen, Comptroller.

The Directors express their warm thanks to the 761 men and women who make up your Company. They are one of the major assets of Home Oil and the foundation upon which it will grow.

Submitted on behalf of the Board of Directors.



Chairman of the Board

Calgary, Alberta
March 8, 1977

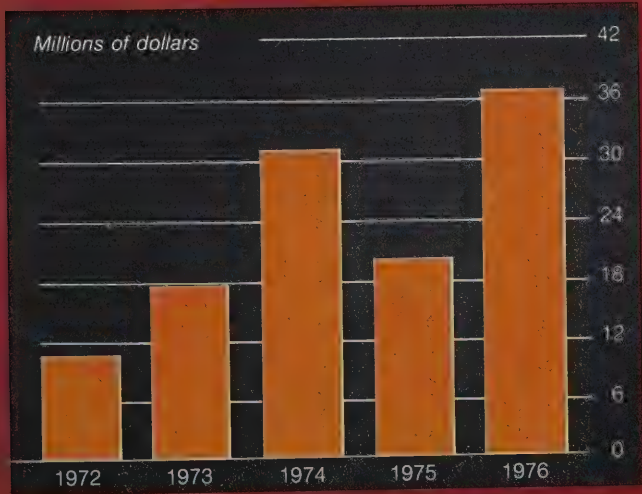


President and
Chief Executive Officer

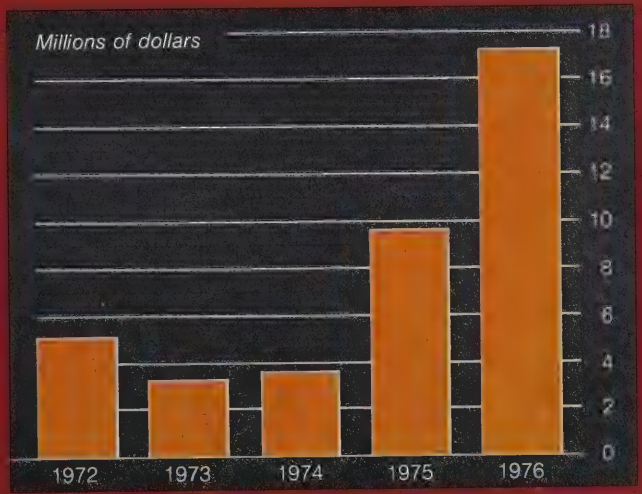
OPERATIONS



EXPLORATION EXPENDITURES



DEVELOPMENT EXPENDITURES



EXPLORATION

The Company and its subsidiaries in its 1976 drilling program had a working interest in 149 wells and, through farmouts, an interest in 73 additional wells. Exploratory drilling accounted for 119 of the 222 wells; the remaining 103 were in the development category. The greatest drilling emphasis was in Alberta where 65 exploratory and 64 development wells were drilled. This underscores the relatively attractive economics available to the Company in this province. Two exploratory wells were drilled during the year in British Columbia where improved economics provided increased incentive for hydrocarbon exploration. In the United States 65 wells were drilled, and a further 10 wells were drilled under the Company's foreign exploration program.

The drilling of 119 exploratory wells resulted in eight oil and 31 gas discoveries and 65 dry holes; 15 wildcat wells were drilling at year end. The Company's development drilling program resulted in eight oil wells, 62 gas wells and 29 dry holes; at year end four development wells were still drilling.

The Company, at the beginning of 1976, held a land inventory of 33,849,917 gross acres (7,975,563 net acres). This inventory was strengthened during the year with significant additions in Alberta, British Columbia and Newfoundland, and reductions in those unattractive areas within the Territories, Hudson Bay, New Brunswick, Quebec and Saskatchewan.

Major land reductions were also made in Somalia, Malta and Italy. On December 31, 1976, the Company's land inventory stood at 36,264,438 gross acres (7,451,286 net acres).

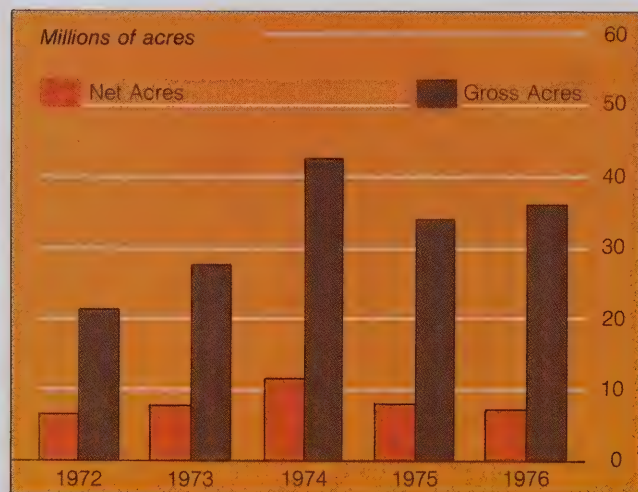
Home Oil Company Limited

Alberta

During 1976 the Company made significant increases in its exploration expenditures within the foothills and deep basin areas of western Alberta where substantial natural gas potential is known to exist. At year end three seismic crews were actively mapping potential areas in both regions with a view to drilling in 1977.

Within the deep basin area another company announced a major Devonian reef natural gas discovery one quarter of a mile from Home's leases in the Pinto area of west-central Alberta. Your Company, in joint venture, has significant lease holdings in some 10 townships surrounding this well. Also, during 1976 seismic coverage was completed on a deep Devonian gas play in the Pembina River area 92 miles south-east of Pinto and this prospect is now being drilled on 18,560 acres of pooled leases.

EXPLORATION ACREAGE



Within the foothills area of the province a three company group was formed during 1976 to pursue aggressively exploration prospects. An extensive seismic network is being assembled and it is anticipated that a number of prospects, ready for drilling in late 1977, will be developed. In the Moose Mountain area south-west of Calgary, Home has a 36 per cent interest in a 14,500 foot Devonian test on a structure known from offsetting wells to contain gas. Home has an interest in 6,143 acres of leases on this prospect. The Findley area, under exploration since the fall of 1975, saw one well drilled and tested during 1976. This well, an offset to the discovery, encountered natural gas in several additional zones to those encountered in the discovery. Two wells are currently drilling, and additional wells are planned for drilling in 1977 to delineate this attractive structure.

Active exploration and development of gas prospects in the Alberta plains were also undertaken in 1976. In the Chisholm-Akuinu area of central Alberta 16 wells were drilled, of which eight are potential gas wells. Further exploration and development drilling has taken place during the 1976/1977 winter season with the intention of placing these reserves on production in late 1977. In the Christina Lake area of north-eastern Alberta significant indications of shallow gas were encountered in exploratory drilling during 1976. Widely spaced outpost drilling has been

undertaken during the winter of 1976/1977 to determine the extent of these gas accumulations.

The Alberta incentive program has been of invaluable assistance in enabling Home to explore in the "high risk" areas in the deep Alberta basin. Drilling depths and related costs have increased sharply in recent years and it is not uncommon for the Company to be involved in projects where the target zone is three miles below the surface. Wells such as these cost several million dollars and without the stimulus to exploration provided by the Alberta incentive program relatively few would be drilled.

British Columbia

The improved climate for oil and gas investment has provided substantial encouragement for the Company to expand its exploration efforts in British Columbia. At the end of 1976 Home held 933,015 gross acres in permits and leases in the province, a slight increase over 1975. Exploration expenditures in seismic acquisition on structural and Devonian reef prospects have led to significant land purchases in the past two years and will lead to an even more active land acquisition program in the future. During 1976 Home drilled a total of two wells which resulted in one potential gas well and one dry hole.

Canadian Frontier Areas

Reference to Home's purchase of an approximate 5.5 per cent of Panarctic's treasury shares has been made elsewhere in this Report. From an exploration viewpoint, the Arctic Islands have been shown to have significant oil and gas potential and it appears probable that sufficient gas will be added to existing proven reserves within the next few drilling seasons to establish pipeline threshold reserves. Home has land holdings within the Arctic Islands in addition to its equity position in Panarctic. Future exploration on these lands will be dependent upon the development of attractive prospects. The Company is continually evaluating prospects available for farmout from other operators and it may participate directly in Arctic drilling in order to broaden its exploration exposure.

During 1976 drilling continued on Home's farmin acreage from Imperial Oil and Chevron, as part of the Delta Five Group. Three wells had been drilled at year end and one was completed in early 1977. This four well program will complete Home's obligation



under these agreements. This drilling activity has been unsuccessful to date in establishing the presence of commercial hydrocarbons on these blocks and Home does not intend to pursue Delta exploration in the immediate future.

Geologic studies of the more prospective mainland areas have been undertaken, so that Home will be in a position to evaluate lands available for sale when a Federal land sale is called. The proposed new Federal land regulations are still in limbo and it may well be that the requisite laws will not be sufficiently attractive to warrant significant investment in this area.

The Company has taken a 10 per cent interest in a farmout in a 5,565,586 acre block of permits off the east coast of Newfoundland and will drill a well in deep water prior to 1981. Preliminary seismic has mapped a large structure and 167 miles of marine seismic were obtained on this prospect in 1976. Additional marine seismic coverage will be obtained in 1977.

United States of America

In 1976 the Company's U.S. subsidiary, Home Petroleum Corporation, conducted an expanded exploration effort concentrated primarily in the Gulf Coast region, both on and off shore. During the year the Company participated either directly or through farmouts in 49 wells of which 22 were exploratory and 27 were development. This activity resulted in 10 exploratory gas wells, 20 development gas wells and 16 dry holes; at year end three wells were still drilling.

Additional wells were drilled on Block 561 offshore Texas and on the contiguous Block 560, to delineate gas and oil reserves discovered last year. The results thus far do not confirm the presence of sufficient reserves to proceed with the development phase. Further delineation drilling is required in 1977 before a development decision can be made.

United Kingdom

In offshore Blocks 210/19, 38/2 and 30/2, in which the Company holds varying interests, no drilling activity was undertaken. A portion of Block 30/2 was relinquished in 1976 under the terms of the licence. The acreage retained contains a gas condensate discovery drilled on this block in 1971. Onshore a well was drilled in Yorkshire on Petroleum Licence

No. 080. This well, Malton No. 2, is a follow-up to the Malton No. 1 gas discovery drilled in 1970 and is presently awaiting completion in the potentially gas-producing Permian and Carboniferous sands.

In the Fifth Round of Awards in the North Sea, a consortium in which the Company has an 8.17 per cent interest has been offered Blocks 14/16 and 14/17 in the United Kingdom sector.

Other Foreign Areas

General

Home's policy in foreign exploration is to participate in those areas with substantial oil potential and which, in addition, offer favourable economic terms and a stable political environment. In areas outside North America the Company does not deliberately pursue offshore exploration for natural gas. Home became more actively involved in foreign exploration in 1972 with the aim of diversifying its total exploration program. In the past five years the Company has participated in 16 exploratory wells (three in the North Sea, three onshore England, two in the Gulf of Oman, two in Italy, one offshore Malta, one in Somalia, one offshore Greece, one offshore Tunisia and two in the Gulf of Thailand). At year end negotiations were being carried out with a view to possible participation in Vietnam and Brunei.

Oman

The Company participated (11¼ per cent) in a non-productive well drilled in the Gulf of Oman in 1975. The second well in this program (in which Home had a 16¼ per cent interest) was abandoned at a depth of 8,508 feet after failing to find hydrocarbons. The Oman project is currently under review and it is unlikely that further exploration will be undertaken.

Tunisia

Home is a 33⅓ per cent participant in an exploratory project on a 722,345 acre concession in the Gulf of Tunis. The initial well on this prospect, Carthage No. 1, was spudded in December 1976, and was subsequently abandoned at a depth of 7,640 feet after failing to find economic accumulations of hydrocarbons. The geophysical data on that prospect

are being evaluated in light of the initial test and further action will depend on the results of this re-evaluation.

Thailand

Home participated in two farmouts in the Gulf of Thailand on concessions containing 7,968,733 acres which required the drilling of one well on each farmout block. During 1976 Home and its partners drilled the requisite wells under the farmout terms. The initial test was spudded in March 1976 from a drillship and was abandoned at 10,010 feet after encountering severe operational problems associated with extremely high bottom hole temperatures. This test encountered numerous hydrocarbon shows during drilling but adequate testing proved impossible due to the excessive temperatures.

The second well, spudded in August 1976, was temporarily suspended after establishing the presence of a total of 228 feet of net gas pay in several zones. Significant carbon dioxide levels were encountered in some zones. There seems little doubt that potential for large hydrocarbon reserves, both natural gas and oil, exist on Home's acreage within the Gulf of Thailand. A decision on whether to pursue this prospect or not is dependent upon technical and economic studies currently in progress.

Vietnam

Home is a 30 per cent participant in a group currently negotiating with the government of Vietnam with a view to acquiring exploration rights on concessions covering over one million acres in the Saigon basin offshore Vietnam. If agreement can be reached, the group will likely initiate geophysical surveys in 1977, followed by the drilling of the first test in 1978. Based on exploration undertaken by various companies under the previous Vietnam administration, the general Saigon basin area has proven to have significant oil potential.

Scurry-Rainbow Oil Limited

During 1976 Scurry-Rainbow continued exploration in Canada, the United States and in both the United Kingdom and Netherlands portions of the North Sea.

Alberta

Exploratory drilling in south-eastern Alberta resulted

in a basal Blairmore oil discovery on 100 per cent Scurry-Rainbow interest acreage at Arrowwood. Three wells offsetting this discovery were drilled with one finding oil production. In addition, in south-eastern Alberta Scurry-Rainbow had interests in the drilling and completion of two oil wells and eight gas wells. Another well, designed to increase deliverability and to explore deeper Paleozoic thrust sheets, was drilled at Coleman and by year end had reached a total depth of 15,225 feet. This well penetrated two additional Palliser sections which had indications of gas shows but which on testing proved to be water-bearing. The well will be completed for additional deliverability from the Coleman pool.

British Columbia

A total of seven wells was drilled in 1976 resulting in two oil wells, four potential gas wells and one dry hole. Three wells were drilled in the Cecil Lake - Eagle area which resulted in two new pool oil discoveries. A third well was successful in extending the Eagle Field gas reserves.

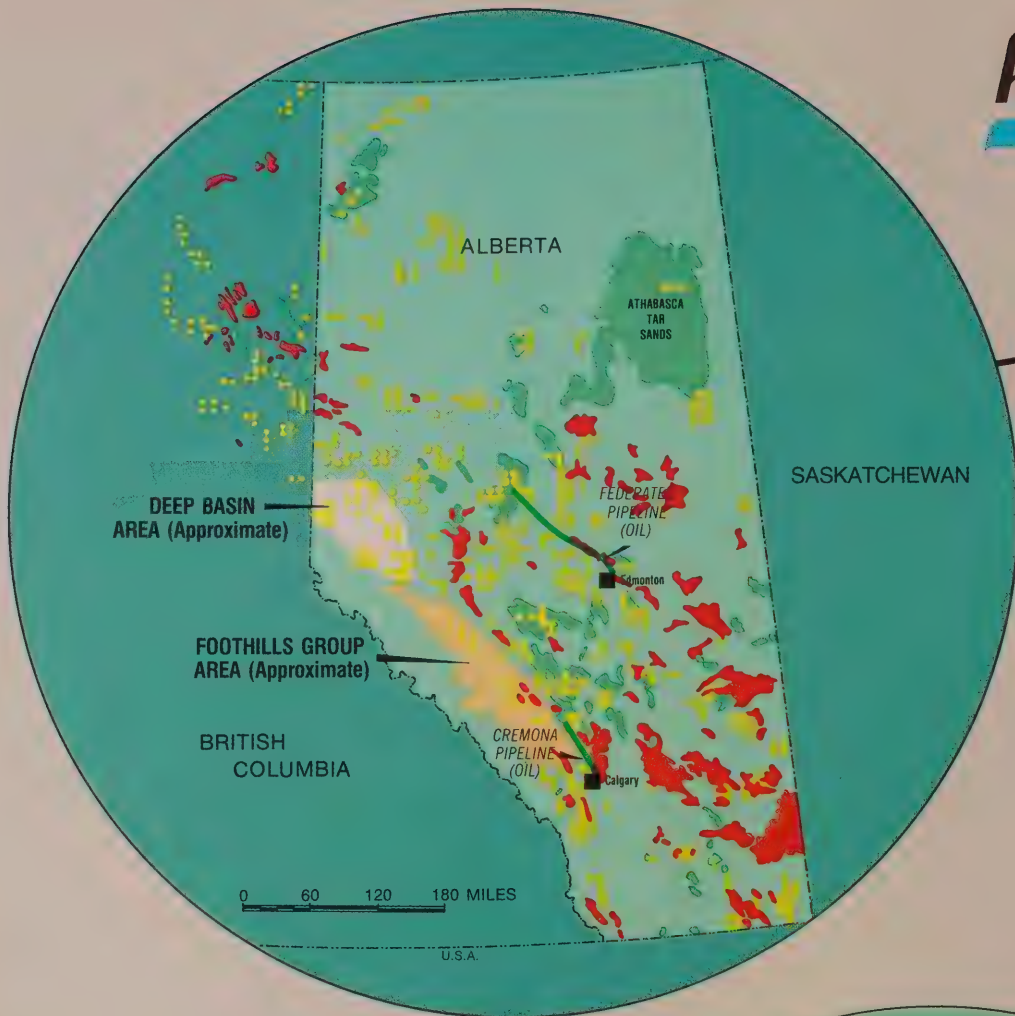
United States of America

Scurry-Rainbow participated (25 per cent) in a Muddy Sandstone oil discovery in the Oedekoven area, Powder River Basin, Wyoming. Unfortunately, development drilling has been unsuccessful.

Subsequent to year end Scurry-Rainbow participated (12½ per cent) in a Mississippian gas well in San Juan County, Utah. This Paradox Basin gas discovery was drilled approximately four miles north of the Lisbon Field and, on drillstem test over a 100 foot interval of Leadville dolomite, flowed gas at 7.4 million cubic feet per day.

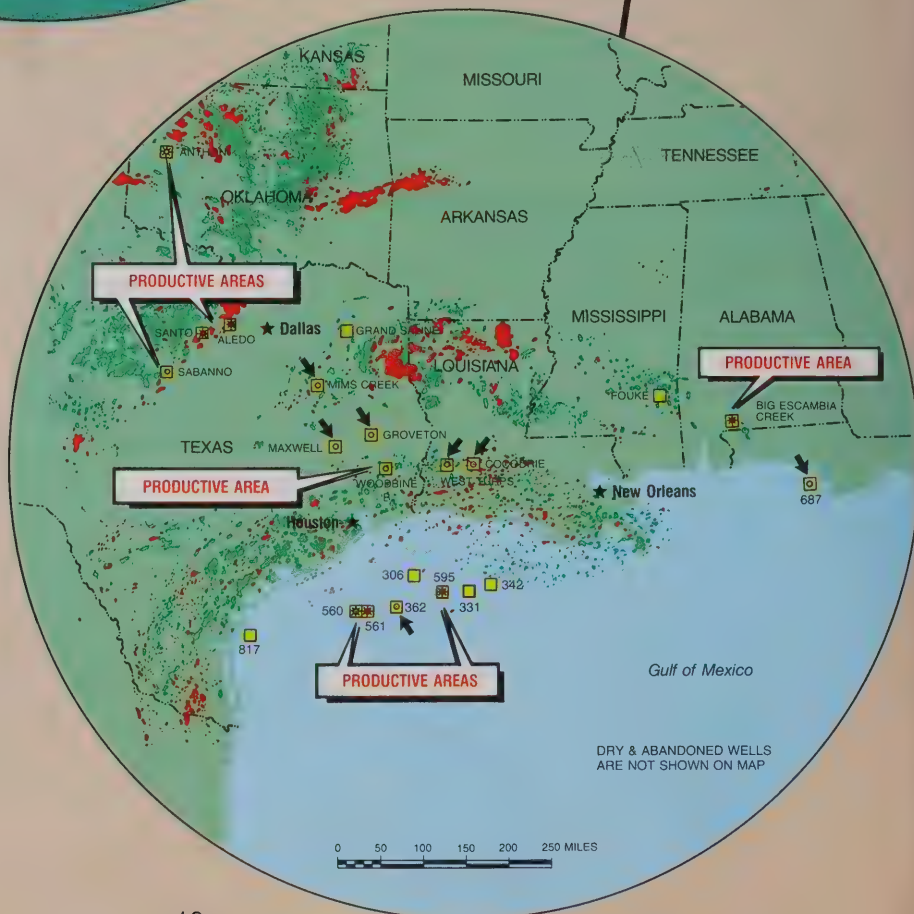
United Kingdom

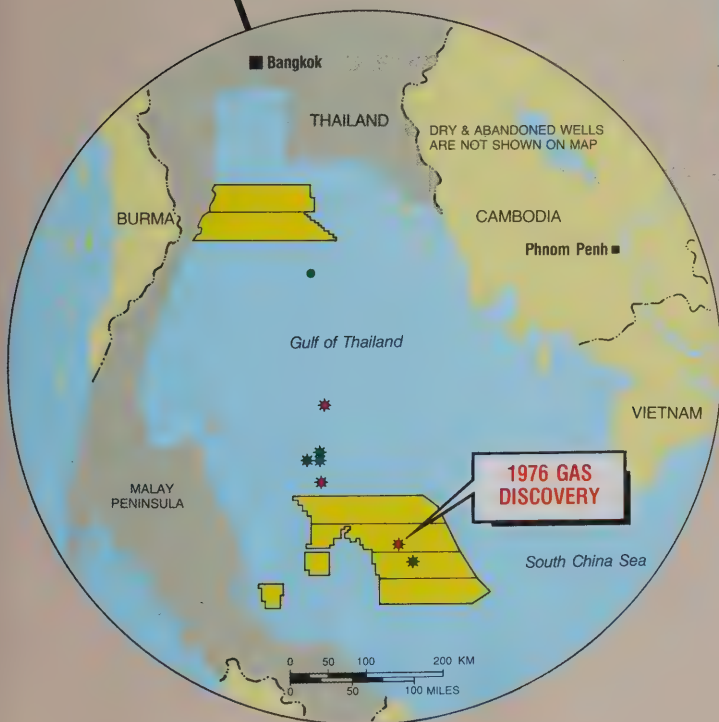
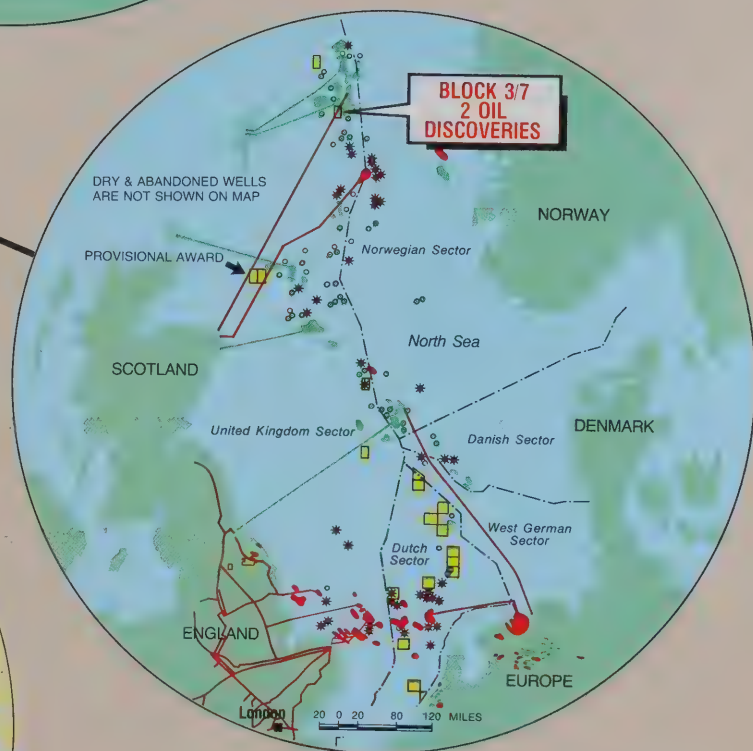
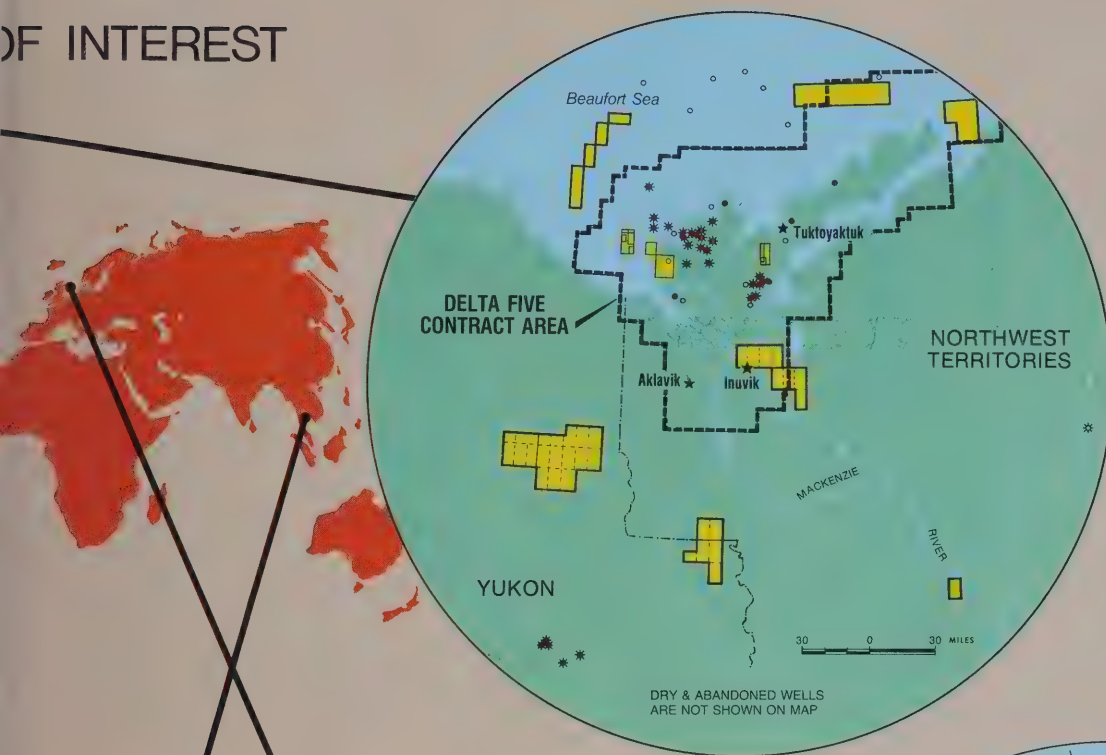
Scurry-Rainbow participated (20 per cent) in the drilling of the 3/7-1 discovery well which flowed oil at rates up to 3,100 barrels per day from the Middle Jurassic Sandstone reservoir. Subsequently, it participated (10 per cent) in a line well, 3/7-2, in which costs were shared equally between the Chevron and Conoco groups. This well tested a structure separate from the Ninian Field and the structure drilled by the 3/7-1 well, and flowed oil from the Middle Jurassic reservoir at 3,300 barrels per day. Further drilling on Block 3/7 may be undertaken in 1977 depending upon evaluations of the results from the recent seismic program.



MAP LEGEND

- HOME OIL AREAS OF INTEREST
- GAS FIELDS
- OIL FIELDS
- GAS PIPELINES
- OIL PIPELINES
- 1977 PROPOSED LOCATIONS
- DRILLING LOCATIONS
- OIL WELLS
- GAS WELLS
- ⊗ OIL & GAS WELLS







EXPLORATION ACREAGE

DECEMBER 31, 1976

	Petroleum & Natural Gas Leases (1)		Reservations, Licences and Permits		Totals	
	Gross	Net	Gross	Net	Gross	Net
Canada						
Alberta(1)	4,074,700	1,521,851	639,943	207,964	4,714,643	1,729,815
Arctic Islands	87,876	16,338	2,344,212	435,110	2,432,088	451,448
British Columbia(1)	493,535	142,358	1,135,656	356,290	1,629,191	498,648
Manitoba(1)	37,992	28,350	—	—	37,992	28,350
New Brunswick	—	—	178,050	48,984	178,050	48,984
Newfoundland	73,442	4,896	5,654,108	5,902	5,727,550	10,798
Northwest Territories	—	—	1,670,324	396,284	1,670,324	396,284
Nova Scotia	—	—	80,640	64,512	80,640	64,512
Ontario	1,334	800	—	—	1,334	800
Quebec	—	—	644,550	327,379	644,550	327,379
Saskatchewan(1)	1,240,581	746,461	—	—	1,240,581	746,461
Yukon Territory	—	—	982,257	274,468	982,257	274,468
	<u>6,009,460</u>	<u>2,461,054</u>	<u>13,329,740</u>	<u>2,116,893</u>	<u>19,339,200</u>	<u>4,577,947</u>
Europe						
Netherlands — Offshore	—	—	1,200,000	30,000	1,200,000	30,000
United Kingdom — Offshore	—	—	238,954	55,305	238,954	55,305
United Kingdom — Onshore	—	—	457,135	130,321	457,135	130,321
	<u>—</u>	<u>—</u>	<u>1,896,089</u>	<u>215,626</u>	<u>1,896,089</u>	<u>215,626</u>
United States						
Alaska	496,489	403,363	—	—	496,489	403,363
Arizona	165,456	165,456	—	—	165,456	165,456
Colorado	799	235	—	—	799	235
Gulf of Mexico (Offshore)	43,800	8,776	—	—	43,800	8,776
Kansas	2,288	2,145	—	—	2,288	2,145
Michigan	6,959	1,740	—	—	6,959	1,740
Montana	528,667	417,269	—	—	528,667	417,269
South Dakota	3,758	1,879	—	—	3,758	1,879
North Dakota	953,253	534,157	—	—	953,253	534,157
Oklahoma	3,494	700	—	—	3,494	700
Texas	146,260	42,588	—	—	146,260	42,588
Utah	150,741	42,725	—	—	150,741	42,725
Wyoming	544,068	121,164	—	—	544,068	121,164
Southeastern States (2)	80,519	65,932	—	—	80,519	65,932
	<u>3,126,551</u>	<u>1,808,129</u>	<u>—</u>	<u>—</u>	<u>3,126,551</u>	<u>1,808,129</u>
Others						
Oman	—	—	3,211,520	521,872	3,211,520	521,872
Thailand	—	—	7,968,733	327,712	7,968,733	327,712
Tunisia	—	—	722,345	—	722,345	—
	<u>—</u>	<u>—</u>	<u>11,902,598</u>	<u>849,584</u>	<u>11,902,598</u>	<u>849,584</u>
Totals	<u>9,136,011</u>	<u>4,269,183</u>	<u>27,128,427</u>	<u>3,182,103</u>	<u>36,264,438</u>	<u>7,451,286</u>

(1) Includes Mineral Titles, Mineral Leases and Royalty Interest Acreage.

(2) Alabama, Arkansas, Florida, Kentucky, Louisiana, Mississippi.

MINING

Coal

Evaluation of the Elk River, B.C. coking coal properties continued through the past year and a joint venture was formed to carry out a detailed feasibility study which could lead to a commercial strip mining project. Elco Mining Ltd., representing a group of European steel and coal companies, acquired the 50 per cent interest of Morrison-Knudsen and will act as operator and take one half of the coal output. At the same time Scurry-Rainbow reduced its 50 per cent interest by selling a 25 per cent interest to The Steel Company of Canada and a 15 per cent interest to Home Oil on terms providing for a bonus payment, reimbursement of a pro rata share of past exploration costs and an initial five per cent gross overriding royalty. These transactions have reduced Scurry's participation to a level commensurate with its financial capability while retaining an overall 25 per cent equity in the project for the Home/Scurry group and maintaining a 50 per cent Canadian content.

In the fourth quarter the project moved into the preliminary planning phase which will continue through February 1978, at an estimated cost of \$11 million. At that time a decision will be made on whether or not to proceed with an open pit mine capable of producing four million short tons of metallurgical coal per year commencing in 1982.

Application was made in December 1975 to the Alberta Energy Resources Conservation Board for permission to open a small open pit metallurgical mine on Grassy Mountain near Blairmore, Alberta, and this application is still pending. The Alberta Coal Policy introduced during 1976 imposes significantly increased royalties and will make it necessary to reassess the economics of this project.

Metallics

Construction was completed on Scurry-Rainbow's Santa Rita silver mine in central Mexico late in the year. While small quantities of zinc and silver-lead concentrates have been shipped, start-up problems have delayed first production of antimony and getting the mining and milling rates up to design levels.

Scurry-Rainbow acquired varying interests in three uranium claim blocks in northern Saskatchewan in the general area of the significant uranium discovery by Uranerz at Key Lake. Interesting trace indications of uranium mineralization were encountered on two of the blocks. An extended evaluation program is planned during 1977.

Scurry-Rainbow also purchased a gold and silver mining property located near Reno, Nevada. This mine had extensive underground exploration completed and a mill with a design capacity of 350 tons of ore per day and other surface installations were partially constructed. Scurry-Rainbow has undertaken to complete this pre-production work and place the mine on full production, which is expected to take place in mid-1977.

PRODUCTION

Production of crude oil and natural gas liquids (condensate, propane and butane), before the deduction of royalties and minority interests, averaged 34,959 barrels per day in 1976, a decrease of 11.8 per cent from the 39,656 barrels per day produced during 1975. Natural gas sales averaged 119.2 million cubic feet per day in 1976, compared to 125.2 million cubic feet per day in 1975. Sulphur sales for 1976 totalled 47,211 long tons, compared to 35,801 long tons in the previous year.

The decrease in production quantities of crude oil is due primarily to reduced allowables brought about by reduced exports to the United States. The decrease in natural gas sales and natural gas liquids production resulted from an over-supply situation that is expected to last for approximately two to three years.

During 1976 the Federal Government increased the price of crude oil from \$8.00 per barrel to \$9.05 per barrel at mid-year. At the beginning of 1977 the price was set at \$9.75 per barrel and this is subject to review in mid-1977. In Alberta, where Home produced 89.5 per cent of its 1976 crude oil production, the weighted average wellhead price in 1976 was approximately \$8.65 per barrel before royalties.

Continuing efforts are being made to slow the rate of natural decline which is now appearing in nearly all of the Company's properties. A technique designed to add to the recovery of Swan Hills crude reserves will be implemented on an experimental basis in early 1978. The Company is also participating with other companies in research into new methods of enhanced recovery.

In line with the Federal Government's views for attaining price parity among petroleum products, the Toronto gate price for natural gas was increased from \$1.25 per Mcf to \$1.405 per Mcf on July 1, 1976, and to \$1.505 on January 1, 1977. This resulted in an increase in Home's wellhead price from \$0.71 per Mcf to \$0.98 per Mcf. In addition, approximately \$0.23 per Mcf was received with respect to gas exported to the United States. At year end the weighted average selling price for all of Home's gas was approximately \$1.09 per Mcf compared to \$0.93 per Mcf a year earlier.

Development of the Company's shut-in gas, made feasible by the increase in gas prices, continued throughout the year. A small Home-operated plant in the Bashaw area of central Alberta was placed in operation on October 1, 1976, and in mid-December small shut-in reserves in the Joarcam area were also placed on production. An additional plant is being constructed in the Home-operated South Marten Hills Unit No. 1 to handle production from the west end of the Unit and plans are under way to develop Home's shut-in gas in the Sunchild area in west-central Alberta and Big Bend-Tieland areas in north-central Alberta in 1977.



SOURCE OF PRODUCTION

(Before Deduction of Royalties)

PRODUCING AREA

	1976	1975
CRUDE OIL — Barrels		
Alberta		
Swan Hills	5,489,014	6,177,466
Mitsue-Saulteaux	1,024,030	1,247,071
Virginia Hills	684,006	878,233
Pembina	641,988	794,970
Harmattan-Elkton	538,071	536,382
Turner Valley	403,547	383,024
Leduc-Woodbend	165,932	193,674
Redwater	210,350	272,336
Others	975,912	1,048,187
	10,132,850	11,531,343
Saskatchewan		
Workman	273,150	385,767
Others	388,518	460,995
	661,668	846,762
British Columbia	442,588	502,523
Manitoba	51,542	54,619
United States		
Wyoming	33,995	38,281
Utah	—	4,749
Others	1,643	2,840
	35,638	45,870
Total Crude Oil	11,324,286	12,981,117
Daily Average	30,941	35,564

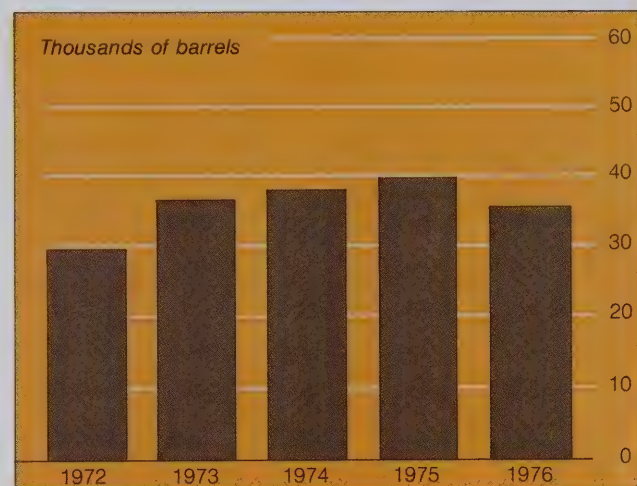
NATURAL GAS LIQUIDS — Barrels

Alberta		
Carstairs-Elkton	556,365	586,096
Harmattan	277,993	285,853
Nevis	207,852	173,676
Calgary	85,557	86,693
Others	342,860	361,171
Total Natural Gas Liquids	1,470,627	1,493,489
Daily Average	4,018	4,092
Total Crude Oil and Natural Gas Liquids	12,794,913	14,474,606
Daily Average	34,959	39,656

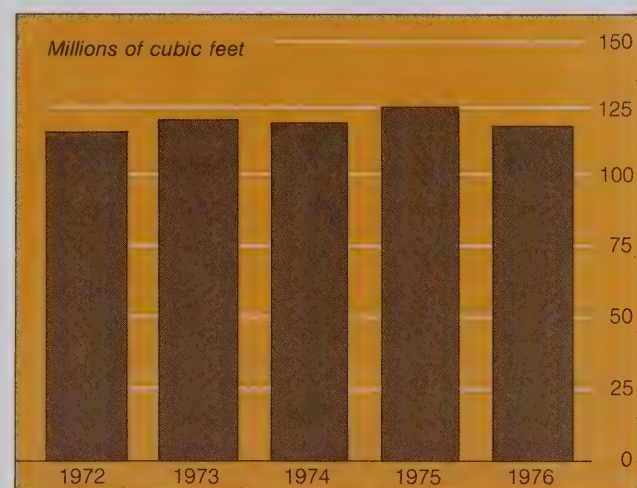
NATURAL GAS — Thousand Cubic Feet

Alberta		
Carstairs-Elkton	12,668,195	14,498,134
Nevis	5,230,639	6,127,672
Swan Hills	3,344,372	3,638,631
Marten Hills	2,573,546	2,637,768
Calgary	2,308,337	2,251,109
Crossfield	2,184,195	2,715,204
Coleman	1,523,740	208,684
Harmattan-Elkton	1,440,001	1,547,244
Turner Valley	1,042,542	762,685
Whitecourt	676,484	1,006,802
Nordegg-Brazeau	1,035,832	1,172,149
Sarcee	541,327	774,331
Jumping Pound	874,222	817,387
Retlaw	614,981	702,649
Pendor	106,437	135,348
South Elkton	214,489	261,352
Others	6,214,192	5,913,347
	42,593,531	45,170,496
British Columbia	239,877	90,330
United States	781,160	427,849
Total Natural Gas	43,614,568	45,688,675
Daily Average	119,165	125,174

AVERAGE DAILY PRODUCTION — CRUDE OIL & N.G. LIQUIDS



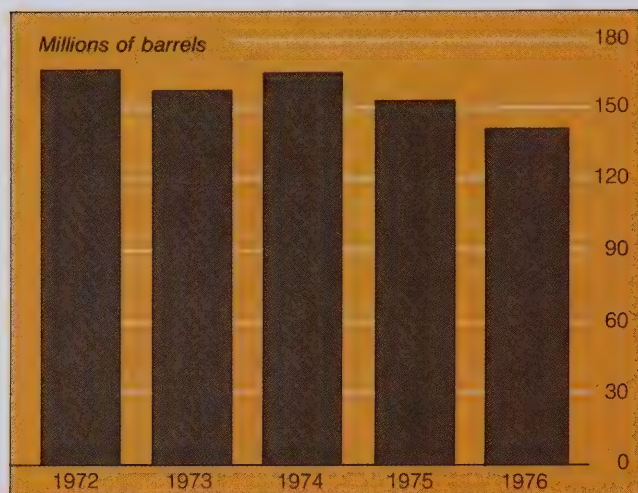
AVERAGE DAILY PRODUCTION — NATURAL GAS



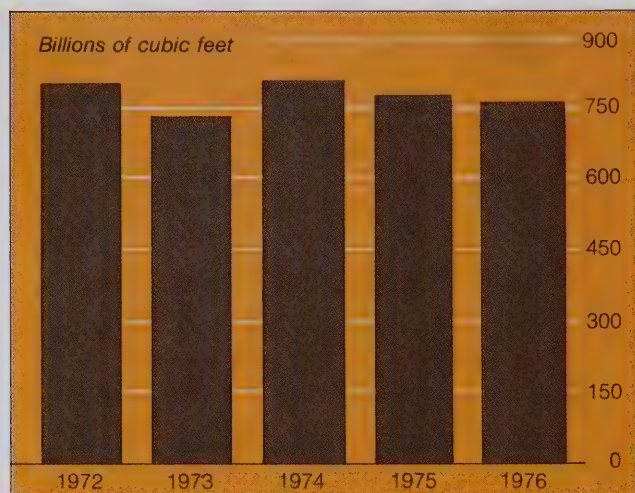
RESERVES

The Company's gross proven developed crude oil, natural gas liquids, natural gas and sulphur reserves at January 1, 1977, are summarized in the accompanying table. The Company's gross reserves are defined as the Company's share of reserves from working interests, overriding royalties and other beneficial interests but before the deduction of any royalty interest owned by others and minority interests.

PROVEN DEVELOPED RESERVES — CRUDE OIL & N.G. LIQUIDS



PROVEN DEVELOPED RESERVES — NATURAL GAS



GROSS PROVEN DEVELOPED RESERVES

	January 1, 1977	January 1, 1976
Crude Oil — barrels . . .	126,682,400	137,015,000
Natural Gas Liquids — barrels	14,133,100	15,709,500
Natural Gas — thousand cubic feet	758,578,000	782,570,000
Sulphur — long tons . . .	1,302,700	1,786,400

The above figures exclude probable additional reserves. Bitumen reserves underlying Home's jointly held leases in the Athabasca Oil Sands and heavy oil reserves in the Christina Lake area are also excluded.

Included in gross proven developed reserves are 2,970,000 barrels of oil, 30,289,800 Mcf of natural gas and 299,000 barrels of natural gas liquids relating to the minority interests owned by others in such subsidiaries as Scurry-Rainbow Oil Limited, United Oils, Limited and Foothills Oil and Gas Company, Limited.



PIPELINES

Federated Pipe Lines Ltd.

During 1976 Federated Pipe Lines Ltd., 50 per cent owned and operated by the Company, had a throughput averaging 262,559 barrels per day, down 11 per cent from 294,738 barrels per day in 1975. The reduction in throughput is primarily a result of reduced export volumes of Canadian crude. The 1976 throughput represents 27 per cent of Alberta's total light and medium crude production, relatively unchanged from 1975. Throughput peaked at 329,300 barrels per day in 1976, as compared to 358,100 barrels per day in 1975. Federated has a rated main line capacity of 450,000 barrels per day.

Cremona Pipe Line Division

Cremona Pipe Line Division's throughput of crude, condensate and butane averaged 40,978 barrels per day in 1976, a decrease of six per cent from 43,759 barrels per day in 1975.

MARKETING AND STORAGE

During 1976 the LPG marketing and storage divisions of Home and its U.S. subsidiary, Home Petroleum Corporation, made substantial contributions to corporate profits. The price of butane and propane improved during the fourth quarter, reflecting increased demand for these products. Total product handling exceeded 180,000,000 gallons, which represents a small increase over 1975.

Sulphur sales were 47,000 long tons which represents a 32 per cent increase from a year ago. Prices began to drop in the third quarter, which is indicative of world demand in an over-supplied market.

The Company has a 50 per cent interest in and operates an LPG underground storage facility at Hardisty, Alberta, with a capacity of 2.8 million barrels for storing butane and propane. In addition, the plant has splitting facilities, with a capacity of 6,600 barrels per day, which enables it to produce normal and iso-butane. The Company's wholly-owned Kansas storage operation has a capacity to store 9.6 million barrels of propane and butane in underground salt storage caverns.



FINANCIAL REVIEW

Gross revenue of \$121,393,000 after royalties increased \$11,814,000 from 1975 gross revenue. The increase is due mainly to higher product prices for crude oil and natural gas, together with increased interest income from funds on deposit. The increase in gross revenue was offset in part by increased operating expense, depletion expense, administrative expense and long term debt interest.

Net earnings amounted to \$30,436,000 (\$3.73 per share) compared to \$25,582,000 (\$3.14 per share) in 1975. Net earnings in 1975 included a net extraordinary loss of \$963,000 (\$0.12 per share) relating to the sale of investments and assets. In 1976 a gain of \$408,000 was realized on the sale of shares of TransCanada PipeLines Limited and was included in investment income. Net flow of funds from operations amounted to \$62,109,000 compared to \$53,470,000 in 1975, an increase of 16 per cent.

Net earnings were adversely affected by a non-recurring charge of approximately \$1,500,000 relating to a contract for the use of the Odin Drill and a provision for an inventory loss at the Company's Hardisty Storage operations. This was partially offset by a revision in the determination of depletion whereby capped gas reserves that are expected to be marketable within a reasonable period of time were included. This latter item had the effect of increasing net earnings by \$861,000.

During 1976 the Company's capital expenditure program totalled \$57,000,000 consisting principally of exploration expenditures of \$36,500,000 and development expenditures of \$17,300,000.

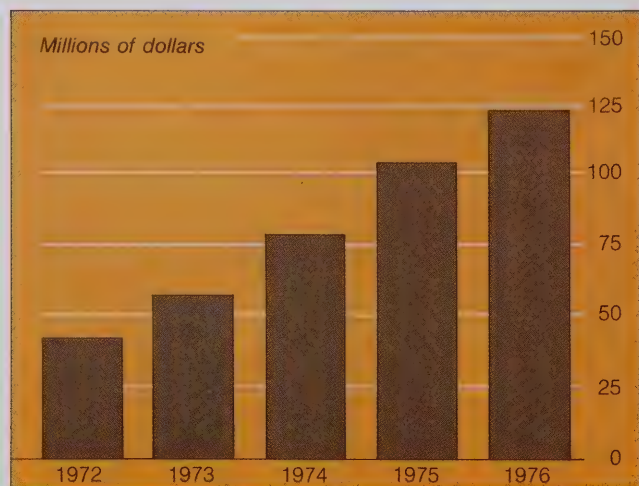
In 1976 the Company undertook a number of significant financial transactions. During the first half of the year Home sold 139,500 shares of TransCanada PipeLines Limited for \$1,587,000. In July the Company completed a Eurodollar financing of \$25,000,000 (U.S.) Debentures due 1986 bearing a coupon rate of 9.5 per cent. These two transactions, together with increased cash flow, place the Company in a particularly favourable working capital position to undertake its expanded 1977 capital program and take advantage of any potential corporate acquisitions that may arise.

In October the Company completed arrangements whereby it agreed to invest \$30.5 million in Panarctic Oils Ltd. in the form of work obligations to be performed during the three year period 1977 to 1979. This will give Home an approximate 5.5 per cent interest in Panarctic. On an after-tax basis the commitment amounts to approximately \$11.5 million over the period.

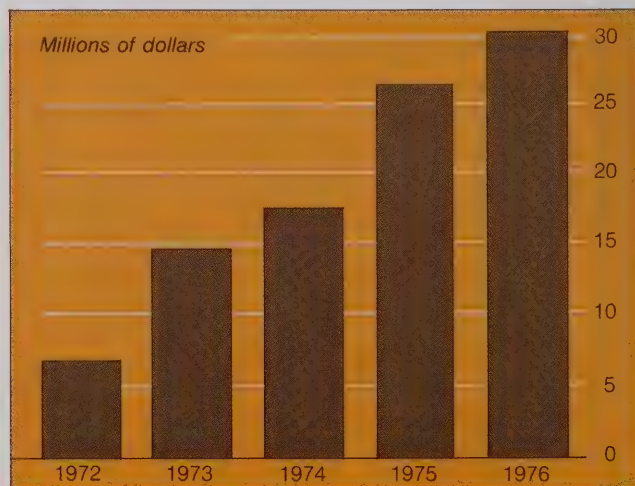
In November Home made a tender offer of \$5.80 per share for all of the outstanding shares of Canadian Export Gas & Oil Ltd. As a result of another company's offer of \$6.15 per share, Home made an increased offer of \$6.35 per share. Following a higher bid of \$6.45 per share by the other company, Home withdrew its offer.

Home's subsidiary, Scurry-Rainbow Oil Limited, assigned 40 per cent of its previous 50 per cent interest in its metallurgical coal properties in south-eastern British Columbia to the Steel Company

GROSS REVENUE



NET EARNINGS Before extraordinary items



of Canada (25 per cent) and Home Oil Company Limited (15 per cent) for cash consideration plus a royalty on coal produced.

In November Scurry, through its 95 per cent owned subsidiary, Scurry-Rainbow Oil (Sask) Ltd., purchased certain gas reserves and exploration lands in Alberta and British Columbia for \$5,000,000.

During December Home purchased a 50 per cent interest in a Nova Scotia gas storage exploration permit for \$300,000 and will act as operator of the project.

Semi-annual dividend payments of \$0.25 per share were paid on January 1 and July 1, 1976, respectively. The January 1, 1977 dividend on Class A and Class B shares was increased to \$0.375 per share.

SUMMARY OF OPERATIONS

	1976	1975	1974	1973	1972
Revenue	<u>\$121,393,000</u>	<u>\$109,579,000</u>	<u>\$79,520,000</u>	<u>\$56,014,000</u>	<u>\$39,933,000</u>
Expenses					
Operating, general and administrative and minority interest	<u>26,216,000</u>	<u>21,819,000</u>	<u>15,854,000</u>	<u>12,465,000</u>	<u>9,600,000</u>
Depletion and depreciation	<u>24,404,000</u>	<u>24,342,000</u>	<u>20,517,000</u>	<u>15,043,000</u>	<u>13,207,000</u>
Interest expense	<u>7,459,000</u>	<u>7,275,000</u>	<u>6,626,000</u>	<u>3,811,000</u>	<u>4,874,000</u>
	<u>58,079,000</u>	<u>53,436,000</u>	<u>42,997,000</u>	<u>31,319,000</u>	<u>27,681,000</u>
Net earnings before provision for income taxes	<u>63,314,000</u>	<u>56,143,000</u>	<u>36,523,000</u>	<u>24,695,000</u>	<u>12,252,000</u>
Provision for income taxes	<u>32,878,000</u>	<u>29,598,000</u>	<u>19,105,000</u>	<u>10,183,000</u>	<u>5,162,000</u>
Net earnings before extraordinary items	<u>30,436,000</u>	<u>26,545,000</u>	<u>17,418,000</u>	<u>14,512,000</u>	<u>7,090,000</u>
Extraordinary items	<u>—</u>	<u>(963,000)</u>	<u>(3,902,000)</u>	<u>(295,000)</u>	<u>2,198,000</u>
Net earnings	<u>\$ 30,436,000</u>	<u>\$ 25,582,000</u>	<u>\$13,516,000</u>	<u>\$14,217,000</u>	<u>\$ 9,288,000</u>

Increased prices for both crude oil and natural gas together with production growth resulted in substantially higher revenue in 1973.

Revenue for 1974 increased by approximately 42 per cent from 1973. This resulted from additional price increases for both crude oil and natural gas, partially offset by reduced production of both products. In addition, the results of Scurry-Rainbow Oil Limited are included from June 1, 1974 (date of acquisition).

Revenue for 1975 increased by approximately 38 per cent from 1974. This reflects substantially higher oil and gas prices together with an approximate 5 per cent increase in production resulting mainly from inclusion of Scurry's results for the full year. United States LPG marketing and storage operations contributed approximately an additional \$1,600,000 of revenue in 1975.

In 1976, revenue increased by approximately 11 per cent from 1975, reflecting increased prices for both crude oil and natural gas despite a decline in the production of both products. Interest income from funds on deposit increased by approximately \$3,000,000 in the same period.

Income taxes for 1974 incorporate the effect of government tax measures enacted effective May 6, 1974 which accounted for more than half of the increase over 1973. Income taxes for 1975 increased by approximately 55 per cent over 1974, reflecting the effects of the new tax legislation for a full year together with the higher revenues. Depletion and depreciation expense during the years 1973 to 1975 increased mainly as a result of the Scurry-Rainbow consolidation. The inclusion of capped gas reserves in the depletion base for 1976 resulted in a reduction in the rate of growth of the depletion provision.

Interest expense in 1974 was materially higher due to bank borrowings used to finance the Scurry acquisition. Interest expense increased further in 1975 for the same reason but was arrested by the elimination of bank indebtedness largely from funds generated internally and by investment sales.

Extraordinary items in 1973 and 1974 relate wholly to gains or losses on sales of investments. The extraordinary item of \$2,198,000 in 1972 is the net result of a gain on the sale of investments of \$4,898,000 and a \$2,700,000 write-down of the Company's interest in a dismantled U.K. gas plant. The 1975 extraordinary loss of \$963,000 results from a net loss of \$3,287,000 on the sale of investments and a net gain of \$2,324,000 on the sale of land and other assets.

Additional information relating to the above items is contained in the Directors' report to the shareholders, the financial, production and five year reviews and in the notes to the consolidated financial statements.

The following table shows the percentage of gross revenue contributed by the two major sources during each of the five years ended December 31, 1976:

	1976	1975	1974	1973	1972
Crude oil	48.73%	53.25%	57.52%	60.52%	57.95%
Natural gas and related products	34.83%	31.16%	23.49%	19.33%	21.86%

The Company produces crude oil, natural gas and other products principally as a result of one integrated operation. Frequently these products are produced jointly. Accordingly, it is not possible to allocate expenses to revenues generated by product in order to determine the contribution to net earnings by individual product line.



EMPLOYEES

At year end the Company and its subsidiaries employed 761 people, an increase of 31 from December 31, 1975. Increases in staff located in the United States, including 55 in conjunction with our mining activities in Nevada, were partially offset by reductions in our United Kingdom and Canadian staff.

Under our service award program some 52 employees received awards during the year. The collective service of these employees represents more than 820 years, with more than one half of those employees being recognized for service in excess of 20 years.

During the year a pension actuary submitted an actuarial report of the Pension Plan covering the three year period ended January 1, 1976. The deficit of \$645,000 will be liquidated over the three year period ending January 1, 1979. At the end of 1976 assets in the fund amounted to approximately \$10.5 million with pension benefits being paid to 63 former employees or spouses of former employees.

During the year considerable time and effort was spent reviewing the impact of the Anti-Inflation Program as it relates to compensation. The Company ensured that its compensation package, including the cost of the employee benefit program, complied with the Anti-Inflation Act and Regulations while attempting to maintain internal and external equity with respect to compensation.



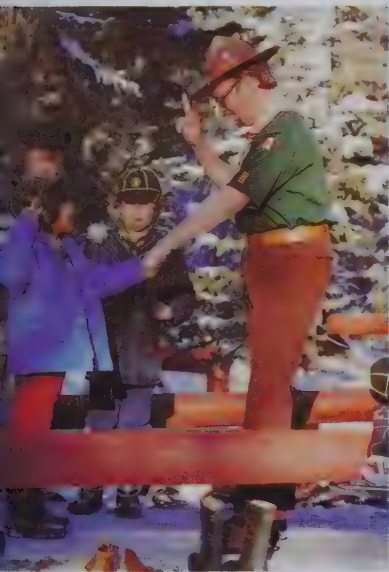


COMMUNITY RESPONSIBILITY

Another aspect of its business life that Home considers important is its contribution to the public and to the community at large. We are well aware that corporations require public understanding and support. We believe in serving the public and accept that more is required of us than just growth and profitability. In recognition of this your Company contributes to health and welfare agencies, cultural organizations, educational institutions and civic causes. Among these are the United Way of Calgary, The Calgary Philharmonic Society, Heritage Park, the Calgary Zoological Gardens and Natural History Park and Junior Achievement of Southern Alberta.

Home is particularly proud of the Centennial Scholarship Program which it has established at the University of Calgary. Since its inception some 24 students have completed undergraduate studies with the assistance of this program. In addition, Home assists the Southern Alberta Institute of Technology and other Canadian educational institutions through scholarships, grants and donations to building projects.

Your Company also encourages its employees' participation in all fields of community endeavours and, indeed, many of Home's employees are actively involved in such community activities as amateur sports programs, Scouts Canada, continuing adult education and community fund-raising projects.





HOME OIL COMPANY LIMITED

Consolidated Statement of Changes in Financial Position

	For The Years Ended December 31,	
	1976	1975
Funds Were Obtained From		
Operations	\$ 62,109,000	\$ 53,470,000
Sale and reclassification of investments — net	1,752,000	29,108,000
Sale of assets — net	3,477,000	4,964,000
Repayment of advances	6,477,000	—
Issuance of capital stock (Note 5)	413,000	265,000
Long term borrowings	26,279,000	18,268,000
	<u>\$100,507,000</u>	<u>\$106,075,000</u>
Funds Were Used For		
Property, plant and equipment	\$ 56,195,000	\$ 31,586,000
Reduction in long term debt	13,500,000	13,787,000
Dividends	5,104,000	4,078,000
Investments and advances	4,374,000	4,706,000
Other	1,585,000	1,313,000
	<u>80,758,000</u>	<u>55,470,000</u>
Increase in Working Capital	<u>19,749,000</u>	<u>50,605,000</u>
	<u>\$100,507,000</u>	<u>\$106,075,000</u>
Changes in Components of Working Capital		
Increase (Decrease) in Current Assets		
Cash and short term deposits	\$ 20,190,000	\$ 28,075,000
Accounts receivable	(328,000)	8,871,000
Marketable securities	(1,934,000)	1,934,000
Inventories	(1,729,000)	2,696,000
	<u>16,199,000</u>	<u>41,576,000</u>
Decrease (Increase) in Current Liabilities		
Bank indebtedness	(2,885,000)	20,700,000
Accounts payable and accrued charges	(3,272,000)	(4,206,000)
Dividends	(1,023,000)	(4,000)
Income taxes	12,611,000	(5,570,000)
Current maturities on long term debt	(1,881,000)	(1,891,000)
	<u>3,550,000</u>	<u>9,029,000</u>
Increase in Working Capital	<u>\$ 19,749,000</u>	<u>\$ 50,605,000</u>



HOME OIL COMPANY LIMITED

Consolidated Statement of Earnings

	For The Years Ended December 31,	
	1976	1975
Revenue		
Operating revenue	\$113,045,000	\$103,649,000
Investment income	8,348,000	5,930,000
	<u>121,393,000</u>	<u>109,579,000</u>
Expense		
Operating	16,721,000	13,401,000
General and administrative	8,878,000	8,017,000
Depletion (Note 2)	21,011,000	20,937,000
Depreciation	3,393,000	3,405,000
Interest and expense on long term debt	7,413,000	6,679,000
Other interest	46,000	596,000
Minority interest	617,000	401,000
	<u>58,079,000</u>	<u>53,436,000</u>
Net earnings before provision for income taxes	<u>63,314,000</u>	<u>56,143,000</u>
Provision for Income Taxes (Note 4)		
Current	26,014,000	27,447,000
Deferred	6,864,000	2,151,000
	<u>32,878,000</u>	<u>29,598,000</u>
Net Earnings before extraordinary items	<u>30,436,000</u>	<u>26,545,000</u>
Extraordinary Items		
Loss on investment transactions — net	—	(3,287,000)
Gain on sale of assets, net of applicable income taxes of \$469,000	—	2,324,000
	<u>—</u>	<u>(963,000)</u>
Net Earnings	<u>\$ 30,436,000</u>	<u>\$ 25,582,000</u>
Earnings per Share (based on average number of shares outstanding)		
Net earnings before extraordinary items	\$3.73	\$3.26
Extraordinary items	—	(.12)
Net earnings	<u>\$3.73</u>	<u>\$3.14</u>

Consolidated Statement of Retained Earnings

	For The Years Ended December 31,	
	1976	1975
Balance, At Beginning of Year	\$ 85,115,000	\$ 63,611,000
Net Earnings	<u>30,436,000</u>	<u>25,582,000</u>
	<u>115,551,000</u>	<u>89,193,000</u>
Dividends Declared		
Class A shares	3,496,000	2,792,000
Class B shares	1,608,000	1,286,000
	<u>5,104,000</u>	<u>4,078,000</u>
Balance, At End of Year	<u>\$110,447,000</u>	<u>\$ 85,115,000</u>



HOME OIL COMPANY LIMITED

Consolidated Balance Sheet as at December 31, 1976 and 1975

Assets

	1976	1975
CURRENT ASSETS		
Cash and short term deposits	\$ 59,672,000	\$ 39,482,000
Accounts receivable — trade	26,353,000	25,887,000
— other	1,447,000	2,241,000
Marketable securities	—	1,934,000
Inventories, at lower of cost and realizable value	6,474,000	8,203,000
	<u>93,946,000</u>	<u>77,747,000</u>
INVESTMENTS AND ADVANCES		
Quoted securities (Note 1)	8,843,000	10,022,000
50% owned companies	8,422,000	8,716,000
Partnership interest	3,414,000	3,059,000
Advances repayable from production, at cost	2,120,000	6,316,000
	<u>22,799,000</u>	<u>28,113,000</u>
PROPERTY, PLANT AND EQUIPMENT,		
at cost (Note 2)	487,886,000	434,405,000
Accumulated depletion and depreciation	169,831,000	145,220,000
	<u>318,055,000</u>	<u>289,185,000</u>
OTHER ASSETS (Note 5)	<u>5,704,000</u>	<u>3,149,000</u>

Approved on behalf of the Board:

Director

Director

\$440,504,000

\$398,194,000

Liabilities

	1976	1975
CURRENT LIABILITIES		
Bank indebtedness	\$ 2,885,000	\$ —
Accounts payable and accrued charges	21,902,000	18,630,000
Dividends	3,063,000	2,040,000
Income taxes	37,000	12,648,000
Current maturities on long term debt	12,589,000	10,708,000
	<u>40,476,000</u>	<u>44,026,000</u>
LONG TERM DEBT (Notes 1 and 3)	85,111,000	72,600,000
ACCUMULATED TAX REDUCTIONS APPLICABLE TO FUTURE YEARS	57,192,000	49,918,000
MINORITY INTEREST	<u>12,968,000</u>	<u>12,638,000</u>

Shareholders' Equity

CAPITAL STOCK (Note 5)

Authorized

1,000,000 preferred shares, par value \$50 each

10,000,000 class A shares of no par value

5,000,000 class B shares of no par value

Issued

5,603,441 class A shares (1975 — 5,584,535)	113,691,000	113,278,000
2,572,905 class B shares	<u>20,619,000</u>	<u>20,619,000</u>
	134,310,000	133,897,000
RETAINED EARNINGS (Notes 5 and 8)	<u>110,447,000</u>	<u>85,115,000</u>
	244,757,000	219,012,000
	<u><u>\$440,504,000</u></u>	<u><u>\$398,194,000</u></u>



HOME OIL COMPANY LIMITED

Notes to 1976 and 1975 Consolidated Financial Statements

(tabular amounts shown in thousands of Canadian dollars)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

- (a) The consolidated financial statements include the accounts of all companies in which the Company has ownership of more than 50% of the voting capital stock.
- (b) The Company follows the equity method of accounting for its investment in 50% owned companies and a 20% partnership interest. Under this method the Company's investment in such entities is carried on the balance sheet at cost plus its share of undistributed earnings or losses. The Company's share of the net earnings of these entities is included in investment income in the consolidated statement of earnings.
- (c) The excess of the cost of shares in subsidiaries and companies accounted for by the equity method over the underlying book value at date of acquisition has been allocated to property, plant and equipment and is subject to the accounting policies outlined below.
- (d) Current assets and current liabilities of foreign subsidiaries are converted to Canadian dollars using the exchange rate at the date of the balance sheet. Other assets and liabilities are converted at the rate in effect at the time the original transactions took place. Revenue and expense items (excluding depletion and depreciation, which are converted at the rate of exchange applicable to the related asset) are converted using average rates of exchange throughout the year.

OIL AND GAS OPERATIONS

The Company follows the full cost method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas and related reserves are capitalized and charged against earnings as set out below. Such costs include land acquisition costs, geological and geophysical expense, carrying charges of non-producing property, costs of drilling both productive and non-productive wells and overhead expense related to exploration activities. The costs are accumulated in cost centres as follows:

- (a) North America — Canada and the United States.
- (b) Northwestern Europe — the United Kingdom and the Northwestern European Continental Shelf which presently encompasses all sectors of the North Sea, the Celtic Sea and the English Channel.
- (c) Other Areas — a separate cost centre for the Athabasca Tar Sands and for each foreign area in which the Company is engaged in exploration activities.

Costs accumulated in the North America cost centre are depleted using the unit of production method based upon estimated proven developed reserves, as determined by Company engineers. Natural gas and sulphur reserves and production are converted to equivalent barrels of crude oil based on the relative net sales value of each product.

Expenditures in the areas outlined in (b) and (c) above are amortized on a straight line basis over varying periods. Under this policy, should exploration in a particular area prove successful, the unamortized balance in that cost centre will be depleted on the unit of production basis. Should the area prove to be unproductive, the unamortized balance in that cost centre will be written off to earnings (included in depletion).

MINING OPERATIONS

Mining costs are charged to earnings in the year of expenditure (included in depletion), until such time as the presence of economically recoverable reserves is established. Subsequent expenditures are capitalized and will be depleted on a unit of production basis after commercial production commences. Economically recoverable

reserves are defined by Company engineers as reserves which are capable or have a reasonable prospect of sustaining commercial production. To date, none of the Company's properties has reached the commercial production stage. Proceeds on partial disposition of properties are deducted from the related costs without recognition of gain or loss.

INCOME TAXES

The Company follows the tax allocation method of accounting under which the income tax provision is based on the earnings reported in the accounts. Under this method, the Company makes full provision for income taxes deferred as the result of claiming capital cost allowances and exploration and development costs in excess of the amounts provided for depreciation and depletion in the accounts.

Note 1 Investment in Quoted Securities

	Number of Shares	Cost	Quoted Market Value
TransCanada PipeLines Limited			
— common shares			
— December 31, 1976	1,046,500	\$ 8,843	\$13,735
— December 31, 1975	1,186,000	\$10,022	\$12,750

Certain of the long term debt is secured by 951,000 (1975 — 1,186,000) of the above shares.

Note 2 Property, Plant and Equipment

	1976			1975		
	Accumulated Depletion and			Accumulated Depletion and		
	Cost	Depreciation	Net	Cost	Depreciation	Net
Petroleum and natural gas leases and rights, including exploration and development						
— North America	\$346,004	\$124,005	\$221,999	\$312,435	\$107,066	\$205,369
— Northwestern Europe	20,440	7,687	12,753	15,067	5,806	9,261
— Other areas	7,720	4,180	3,540	4,665	1,915	2,750
Mining properties	32,815	5,487	27,328	28,173	4,257	23,916
Production equipment	50,107	17,219	32,888	44,614	15,229	29,385
Land, buildings, pipeline property and other equipment	30,800	11,253	19,547	29,451	10,947	18,504
	<u>\$487,886</u>	<u>\$169,831</u>	<u>\$318,055</u>	<u>\$434,405</u>	<u>\$145,220</u>	<u>\$289,185</u>

During 1976, the Company revised its estimate of proven developed reserves for accounting purposes to include capped gas reserves. This revision of the estimate resulted in a reduction of depletion provisions for the year and, accordingly, increased net earnings by \$861,000 (\$.11 per share).

Note 3 Long Term Debt

	<u>Maturity</u>	<u>1976</u>	<u>1975</u>
11.50% Secured Bonds	1986	\$13,875	\$15,000
8.20% Secured Bonds	1980	5,834	8,800
(1976 — \$5,602,000 U.S.)			
(1975 — \$8,340,000 U.S.)			
6.25% Collateral Trust Bonds	1983	7,000	8,000
8.10% Secured Bonds	1980	2,171	2,838
(1976 — \$2,059,000 U.S.)			
(1975 — \$2,675,000 U.S.)			
9.50% Debentures	1986	24,240	—
(1976 — \$25,000,000 U.S.)			
7.25% Convertible Subordinated			
Debentures of a subsidiary*	1988	15,115	16,602
Bank Production Loans	1981	20,375	24,875
Non-Interest Bearing Advances	1983	7,718	6,153
(1976 — \$7,719,000 U.S.)			
(1975 — \$6,119,000 U.S.)			
Other		1,372	1,040
		<u>97,700</u>	<u>83,308</u>
Less: Current minimum maturities		12,589	10,708
		<u>\$85,111</u>	<u>\$72,600</u>

*Convertible into shares of Scurry-Rainbow Oil Limited prior to May, 1978 at \$33¹/₃ per share.

All U.S. issues are recorded on the balance sheets in Canadian dollars based on the exchange rate in effect at the date of receipt of the proceeds. The estimated amount of long term debt maturities and sinking fund requirements for the five years subsequent to 1976 are as follows: 1977 — \$12.6 million, 1978 — \$12.7 million, 1979 — \$10.0 million, 1980 — \$9.0 million, 1981 — \$7.1 million.

Note 4 Income Taxes

Total income tax expense amounted to \$32,878,000 in 1976 and \$29,598,000 in 1975. These amounts differ from the results which would be obtained by applying the Canadian Federal income tax rate of 46% for 1976 and 50% for 1975 to the respective years' pretax earnings, before extraordinary items, of \$63,314,000 and \$56,143,000. These differences result from the following items:

	<u>1976</u>		<u>1975</u>	
	<u>Amount</u>	<u>Percentage of Pretax Income</u>	<u>Amount</u>	<u>Percentage of Pretax Income</u>
Computed "expected" tax expense	\$29,124	46.0%	\$28,072	50.0%
Royalties and other payments				
to provincial governments	21,173	33.5	20,059	35.7
Provincial income taxes less				
federal tax abatements	727	1.1	(10,299)	(18.4)
Refund of taxes under provincial				
incentive plans	(3,600)	(5.7)	(7,151)	(12.7)
Depletion allowances on Canadian oil				
and gas production income	(3,068)	(4.8)	(5,523)	(9.8)
Net earnings of 50% owned companies	(520)	(.8)	(818)	(1.5)
Non-deductible costs, primarily foreign exploration	3,321	5.2	5,258	9.4
Federal resource allowance	(14,279)	(22.6)	—	—
Actual tax expense				
— current and deferred	<u>\$32,878</u>	<u>51.9%</u>	<u>\$29,598</u>	<u>52.7%</u>

Note 5 Capital Stock

(a) Dividends

There are restrictions on the payment of dividends on the Class B shares and of dividends in excess of 25¢ per annum on the Class A shares under the provisions of the deeds of trust and mortgage securing certain of the outstanding long term debt. Under the most restrictive provision, the amount permitted thereunder for payment of dividends was in excess of the retained earnings at December 31, 1976. Reference is made to Note 8 for further restrictions on the payment of dividends under the Federal Anti-Inflation Legislation.

(b) Shares Reserved for Exercise of Warrants

There were 109,965 Class A shares reserved at December 31, 1976 and December 31, 1975 for issuance upon the exercise, on or before April 30, 1980, of warrants to purchase 76,975 shares at \$14.55 U.S. per share and 32,990 shares at \$17.66 U.S. per share.

(c) Options to Purchase Capital Stock

As at December 31, 1976 there were 94,760 Class A shares (1975 — 86,434 Class A shares) reserved for exercise to 1986, of employee stock options at prices ranging from \$20 to \$29.625 per share. The exercise prices were equal to or greater than the market price of the shares at the date of granting. In the case of options granted to senior officers, the Company has agreed to accept notes in payment of the optioned shares. A summary of transactions relating to optioned shares is as follows:

Class A Shares	Officers	Other Employees	Total	Consideration
Outstanding January 1, 1975	45,400	57,450	102,850	
Reclassification	3,000	(3,000)	—	
Surrendered and Cancelled	—	(3,668)	(3,668)	
Granted at \$20	—	500	500	
Exercised at \$20	(12,000)	(1,248)	(13,248)	\$265
Outstanding December 31, 1975	36,400	50,034	86,434	
Reclassification	3,334	(3,334)	—	
Surrendered and Cancelled	(7,000)	(3,568)	(10,568)	
Granted at \$27.375	6,500	3,500	10,000	
Granted at \$24.50	27,800	—	27,800	
Exercised at \$20	(6,200)	(4,906)	(11,106)	\$222
Exercised at \$24.50	(7,800)	—	(7,800)	\$191
Outstanding December 31, 1976	53,034	41,726	94,760	

All options were granted under the Officers and Key Employees Share Option Plan which terminates in 1979 or the Incentive Share Option Plan which terminates in 1986. At December 31, 1976 185,536 Class A shares (1975 — 12,768 Class A shares) were reserved for options that may be granted under the plans.

(d) During 1976, 18,906 (1975 — 13,248) Class A shares were issued for cash and notes of \$413,000 (1975 — \$265,000) on exercise of employee share options.

Other assets at December 31, 1976 include notes totalling \$695,000 (1975 — \$440,000) received in payment of 33,000 (1975 — 22,000) Class A shares of the Company subscribed for by officers pursuant to share option agreements.

Note 6 Commitment and Contingent Liabilities

On December 3, 1976 the Company entered into an agreement to subscribe for 2,441,794 common shares (approximately 5.5%) of Panarctic Oils Ltd. As consideration for the Panarctic shares, the Company is to incur, over a three year period commencing in 1977, drilling and exploration expenses on Panarctic lands in an aggregate amount of \$30.5 million.

The Company has guaranteed the indebtedness and certain other obligations of associated entities to the extent of approximately \$13.1 million (1975 — \$9.2 million).

Note 7 Remuneration of Directors and Officers

The Company had 20 directors and 18 senior officers in 1976 (19 and 14 respectively in 1975). Three of the senior officers are directors of the Company. Remuneration paid to directors and senior officers in their respective capacities was \$106,000 and \$950,000 (1975 — \$117,000 and \$707,000).

Note 8 Anti-Inflation Legislation

Certain of the provisions contained in the Federal Anti-Inflation Act which was enacted with effect from October 14, 1975 apply to the Company. Included in these provisions are restrictions that place restraints on the amounts of employee compensation and dividends which may be paid.

The regulations restrict the amount of dividends the Company can declare or pay during the second compliance period from October 14, 1976 to October 13, 1977. Under the restrictions the Company may not, during this compliance period, declare and pay dividends on all classes of its shares in excess of \$6.4 million.

With the exception of the above, substantially all of the Company's operations are exempt from the provisions of the Act. Therefore there was no appreciable effect on the earnings of the Company in 1976.

Auditors' Report

To the Shareholders of Home Oil Company Limited

We have examined the consolidated balance sheet of Home Oil Company Limited as at December 31, 1976 and 1975 and the consolidated statements of earnings, retained earnings and changes in financial position for each of the years then ended. For Home Oil Company Limited (the parent company) and for those other companies of which we are the auditors and which are consolidated or are accounted for by the equity method in these financial statements, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For other companies consolidated or accounted for by the equity method we have relied on the reports of the auditors who have examined the financial statements of those companies.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1976 and 1975 and the results of its operations and the changes in its financial position for each of the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Calgary, Canada
February 22, 1977

THORNE RIDDELL & CO.
Chartered Accountants

HOME'S SHARES

The Company has two classes of shares outstanding, Class A and Class B, which are listed on the Alberta, Montreal, Toronto and Vancouver stock exchanges in Canada and on the American and Pacific Coast stock exchanges in the United States.

Class A shares are entitled to a fixed cumulative dividend of \$0.25 per year in priority to dividends on the Class B shares. After payment of this dividend on the Class A shares a dividend of \$0.25 per share may be paid on the Class B shares. Any further dividend in any year is payable equally on the Class A and Class B shares. Only the Class B shares carry voting rights under normal circumstances.

The Company is effectively controlled by The Consumers' Gas Company of Toronto through its ownership at December 31, 1976, of approximately 96 per cent of the outstanding shares of Cygnus Corporation Limited. Cygnus in turn holds 1,000,000 Class B shares of Home. Consumers' also owns 276,788 Class B shares of Home bringing its effective control of such shares to 1,276,788 or 49.6 per cent at December 31, 1976. In addition, on December 31, 1976, Consumers' owned 389,084 Class A shares of Home and Cygnus owned 125,000 of such Class A shares as well as the outstanding warrants covering 109,965 Class A shares of Home.

	CLASS A		CLASS B	
	1976	1975	1976	1975
Shares Authorized	10,000,000	10,000,000	5,000,000	5,000,000
Shares Issued at December 31	5,603,441	5,584,535	2,572,905	2,572,905
Shares Reserved for:				
Warrants	109,965	109,965	—	—
Options	280,296	99,202	—	—
Number of Shareholders	9,108	9,744	2,671	2,825
Distribution of Shares at December 31				
Canada	92.4%	92.1%	96.3%	96.3%
United States	6.5	6.9	3.1	3.2
United Kingdom	.6	.6	.1	.1
Other	.5	.4	.5	.4
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Volume of Shares Traded	1,298,784	1,903,925	162,980	286,607
Federal Government				
Valuation Day Values	\$33.38 per share		\$33.00 per share	
Price Ranges (High-Low)				
Toronto Stock Exchange				
First Quarter	\$34 ⁷ / ₈ - \$27	\$23 ³ / ₄ - \$16 ³ / ₄	\$30 ¹ / ₂ - \$23 ³ / ₄	\$24 - \$17
Second Quarter	33 ³ / ₄ - 29 ¹ / ₄	31 ¹ / ₄ - 20 ³ / ₈	29 ¹ / ₂ - 26 ³ / ₄	27 ¹ / ₂ - 19 ³ / ₈
Third Quarter	30 ³ / ₄ - 26 ¹ / ₂	30 ⁵ / ₈ - 24	25 ³ / ₄ - 21 ¹ / ₂	27 - 22
Fourth Quarter	28 ¹ / ₄ - 23	29 ¹ / ₂ - 24 ⁵ / ₈	24 ¹ / ₂ - 19 ¹ / ₄	25 - 21 ⁷ / ₈
American Stock Exchange				
First Quarter	34 ³ / ₄ - 26 ¹ / ₈	24 ¹ / ₂ - 16 ³ / ₄	30 ¹ / ₂ - 22 ¹ / ₂	23 ¹ / ₂ - 18 ¹ / ₂
Second Quarter	34 ³ / ₈ - 30	30 - 20 ⁵ / ₈	28 ³ / ₄ - 26 ³ / ₄	26 ¹ / ₄ - 18 ³ / ₄
Third Quarter	31 ¹ / ₈ - 26 ³ / ₄	29 - 23 ³ / ₈	28 ¹ / ₂ - 22 ¹ / ₂	29 ¹ / ₈ - 20 ¹ / ₂
Fourth Quarter	27 ¹ / ₂ - 22 ¹ / ₄	29 ¹ / ₄ - 28 ⁷ / ₈	24 - 20 ¹ / ₂	24 - 21 ¹ / ₂
Dividends Declared Per Share				
(\$0.25 per share paid semi-annually on January 1 and July 1 each year).				
The dividend paid on January 1, 1977 was \$0.37 ¹ / ₂ per share	\$0.62 ¹ / ₂	\$0.50	\$0.62 ¹ / ₂	\$0.50

FIVE YEAR REVIEW / 1972 - 1976

		1976	1975	1974	1973	1972
Earnings	Gross Revenue	\$121,393,000	\$ 109,579,000	\$ 79,520,000	\$ 56,014,000	\$ 39,933,000
	Net Earnings (before Extraordinary items)	\$ 30,436,000	\$ 26,545,000	\$ 17,418,000	\$ 14,512,000	\$ 7,090,000
	Per Share	\$ 3.73	\$ 3.26	\$ 2.14	\$ 1.90	\$.96
	Extraordinary Items	\$ —	\$ (963,000)	\$ (3,902,000)	\$ (295,000)	\$ 2,198,000
	Per Share	\$ —	\$ (.12)	\$ (.48)	\$ (.04)	\$.30
Balance Sheet	Working Capital (Deficiency)	\$ 53,470,000	\$ 33,721,000	\$ (16,884,000)	\$ (2,736,000)	\$ 4,626,000
	Investment in Other Companies	\$ 22,799,000	\$ 28,113,000	\$ 56,579,000	\$ 79,614,000	\$ 71,452,000
	Property, Plant and Equipment — Net	\$318,055,000	\$289,185,000	\$284,389,000	\$174,262,000	\$167,436,000
	Long Term Debt (Less Current Maturities)	\$ 85,111,000	\$ 72,600,000	\$ 68,119,000	\$ 32,466,000	\$ 66,897,000
	Deferred Income Taxes	\$ 57,192,000	\$ 49,918,000	\$ 47,858,000	\$ 31,974,000	\$ 28,320,000
	Minority Interest	\$ 12,968,000	\$ 12,638,000	\$ 12,880,000	\$ 316,000	\$ 347,000
	Capital Stock	\$134,310,000	\$133,897,000	\$133,632,000	\$133,573,000	\$104,506,000
	Retained Earnings	\$110,447,000	\$ 85,115,000	\$ 63,611,000	\$ 54,167,000	\$ 43,825,000
Exploration and Development	Exploration Expenditures	\$ 36,486,000	\$ 20,199,000	\$ 31,445,000	\$ 17,720,000	\$ 10,272,000
	Development Expenditures	\$ 17,319,000	\$ 9,885,000	\$ 3,745,000	\$ 3,478,000	\$ 5,254,000
	Gross Exploration Acreage	36,264,000	33,850,000	43,247,000	27,651,000	21,618,000
	Net Exploration Acreage	7,451,000	7,976,000	11,797,000	7,340,000	5,797,000
Drilling Activity	Gross Working Interest Wells Drilled	134	92	107	72	32
	Net Oil Wells	5	1	4	4	2
	Net Gas Wells	20	8	9	2	1
	Net Dry Wells	19	15	25	17	7
	(Excludes wells drilled by others under farmout agreements)					
Proven Developed Reserves	Crude Oil and Natural Gas Liquids — barrels	140,816,000	152,725,000	166,593,000	155,701,000	167,967,000
	Natural Gas — thousand cubic feet	758,578,000	782,570,000	810,822,000	726,228,000	807,701,000
	Sulphur — long tons	1,302,700	1,786,400	2,154,300	1,662,900	1,712,700
Production and Operations	Crude Oil and Natural Gas Liquids Production — barrels per day	34,959	39,656	37,803	36,030	29,385
	Natural Gas Sales — thousand cubic feet per day	119,165	125,174	119,523	121,495	115,162
	Sulphur Sales — long tons	47,211	35,801	54,886	48,884	48,531
	Cremona Pipe Line Division Daily Average Gatherings — barrels	40,978	43,759	46,517	45,817	43,411
	Federated Pipe Lines Ltd. — (50% Owned) Daily Average Gatherings — barrels	262,559	294,738	314,524	330,420	258,907
Shares and Dividends	Dividends Declared Per Class A Share	\$0.62½	\$0.50	\$0.50	\$0.50	\$0.50
	Dividends Declared Per Class B Share	\$0.62½	\$0.50	\$0.50	\$0.50	\$0.50
	Number of Shares Outstanding — end of year	8,176,000	8,157,000	8,144,000	8,142,000	7,364,000
	Number of Shareholders	11,780	12,570	11,200	11,100	11,100

NOTES: (1) Financial and operating results of Scurry-Rainbow Oil Limited are included from June 1, 1974.
(2) Earnings per share are calculated on the basis of average number of shares outstanding during the year.
(3) Above data incorporates retroactive adjustments.

OFFICERS



A. G. S. GRIFFIN
Chairman of the Board

R. F. PHILLIPS
President and Chief Executive Officer

M. P. PAULSON
Executive Vice-President and General Manager

R. B. COLEMAN
Senior Vice-President and General Counsel

J. P. CRONE
Vice-President, International Operations

F. C. FINN
Vice-President, Mining

J. H. GEDDES
Vice-President, Corporate Development

W. D. LUNDBERG
Vice-President, Producing Operations

B. F. MacNEILL
Vice-President, Finance

B. J. TODESCO
Vice-President, Law

W. H. WADDELL
Vice-President, Exploration

C. B. CLARK
Secretary

D. E. DEAKIN
Treasurer

E. JORGENSEN
Comptroller

F. G. MITCHELL
Assistant Secretary

J. A. PETTY
Assistant Treasurer

AUDITORS

Thorne Riddell & Co.

SOLICITORS

Macleod Dixon
Calgary, Alberta
Dunnington, Bartholow & Miller
New York, New York

TRANSFER AGENTS

Crown Trust Company
The Chase Manhattan Bank

LISTINGS

Toronto Stock Exchange
Vancouver Stock Exchange
Alberta Stock Exchange
Montreal Stock Exchange
American Stock Exchange
Pacific Coast Stock Exchange

ACTIVE SUBSIDIARY COMPANIES

Foothills Oil and Gas Company, Limited
Home Oil (U.K.) Limited
Home Petroleum Corporation
Oman Home Oil Limited
Plains Petroleums Limited
Scurry-Rainbow Oil Limited
Scurry-Rainbow Oil (Sask) Ltd.
Scurry-Rainbow Oil (U.K.) Limited
United Oils, Limited
Westcoast Oil & Gas Corp.

50% OWNED COMPANY

Federated Pipe Lines Ltd.

HEAD OFFICE

304 Sixth Avenue S.W.,
Calgary, Alberta
T2P 0R4
Telephone (403) 266-7041

UNITED STATES OFFICES

Home Petroleum Corporation

Executive Vice-President and
General Manager: R. G. Watkins
2600 North Loop West,
Suite 400,
Houston, Texas, 77092

MARKETING AND ADMINISTRATIVE DIVISIONS

Vice-President and General
Manager, Marketing: D. G. Reyburn
P.O. Box 1649,
5800 East Skelly Drive,
Tulsa, Oklahoma, 74135

EXPLORATION AND PRODUCING DIVISIONS

Vice-President and General
Manager, Exploration: D. L. Brite
Vice-President, Operations: R. N. Gimby
2600 North Loop West,
Suite 400,
Houston, Texas, 77092

UNITED KINGDOM OFFICE

Home Oil (U.K.) Limited

Managing Director: J. D. Tait
4/5 Grosvenor Place,
London, SW1X 7JQ

SHAREHOLDERS' MEETING

The annual and special general meeting of
shareholders will be held at 11 a.m. April 27,
1977, in the Marquis Room of The Palliser Hotel,
Calgary, Alberta.

SUPPLEMENTARY INFORMATION

The Company files annually with the United States
Securities and Exchange Commission a report on
its operations known as the Annual Report on
Form 10-K. The Company also publishes annually
a statistical supplement. Copies of this
supplement and the SEC Form 10-K are available
free of charge upon written request to:
E. Jorgensen, Comptroller, Home Oil Company
Limited, 304 Sixth Avenue S.W., Calgary, Alberta,
T2P 0R4

